# The MAGAZINE of WALL STREET

and BUSINESS ANALYST

NE 9, 1956 — 85 CENTS


1956 OUTLOOK FOR ELECTRIC UTILITIES

## *TODAY'S MAN-MADE BUSINESS CYCLE

*Forces Active In 1929 vs. Those Operating Today*

*With Forecast of Business Investment Trends*

By HOWARD NICHOLSON

### TRANSFORMATION IN THE OHIO VALLEY OPENS NEW VISTAS OF OPPORTUNITY

By HAROLD WEILAND

### AMERICAN CAPITAL IN CANADA AND CANADIAN PLANTS IN THE U.S.A.

By V. L. HOROTH

# THE MAGAZINE OF WALL STREET
## and BUSINESS ANALYST

*Member of Audit Bureau of Circulations*

Vol. 98, No. 6 — June 9, 1956

***The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.***


## CONTENTS



*Cover Photo by New York Stock Exchange*
*Photo, page 347—Canadian National Railways;*
*page 342—Union Carbide and Carbon Corporation*
*Map page 341—B. & O. Railroad*




**SUBSCRIPTION PRICE—$20.00 a year in advance in the United States and its possessions and Pan-America, Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.**

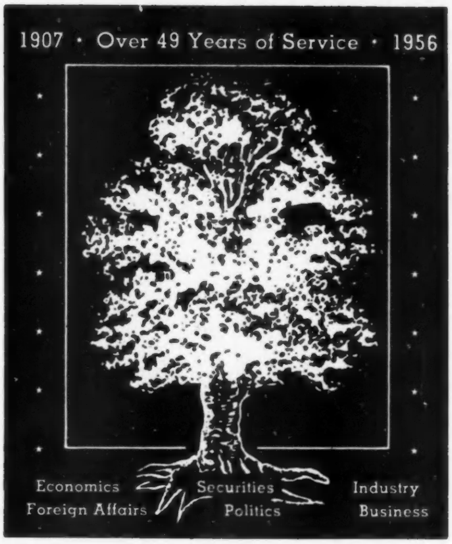
**TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.**

**EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.**

**Cable Address — Tickerpub**

# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*




# The Trend of Events

**IT'S ALL WRONG** . . . A fellow named Kefauver or a man named Stevenson might be the next President of the United States. We mention Senator Kefauver and Adlai Stevenson because they have been occupied these many months in a grueling campaign that has taken them from border to border and coast to coast, an itinerary that makes no sense in the Electronics Age.

They have been reduced to patting babies' heads (for the news cameras) in rural villages, shaking hands of strangers in Ye Eate Shoppe and mannequins in apparel shops, introducing themselves to strange ladies on street corners and mounting courthouse steps around this big nation to speak a few innocuous words.

It occurs to us that the man who fails of the Democratic nomination will be the lucky one. The nominee, no doubt, will be forced to go through this belittling routine again in the hot summer months that precede the General Election in November.

He will be forced to say again and again the same thing on the same issue in order to please precinct leaders. One is forced to wonder whether the stamina of any man would not be sapped so badly that he would qualify better as a candidate for a sanitarium than the incumbency of the White House.

The issues dividing our two major parties are not so many that they can't be debated over the span of a few weeks and, as for the primaries, there must be a more intelligent way of selecting a candidate. In any age, it is downright silly having men stump a state for several weeks and then not binding the state to the winning candidate.

Television and radio, added to the written word, have wrought vast changes in our society. While the politicos use mass media, they go on doing things as though little had been altered, as reflected in the cracker-barrel, whistle-stop technique. While it is true that the Republicans have been spared the ordeal this year, it is due only to the fact that President Eisenhower has consented to seek re-election. Otherwise a wide-open race for the G. O. P. nomination would have ensued along the lines now employed by Democratic hopefuls.

While it is too late to overhaul the electoral mechanism for the upcoming election, the major parties would do well to set to work on changes that would be less wearying to the voters and the candidates.

They might, as an example, get the majority (if not all) of the states to agree to the holding of a primary election on a single day in the spring. From such a poll there would likely emerge candidates with country-wide support.

Meanwhile, we have witnessed another round in an archaic system that does nothing to elevate the dignity of candidates, heighten the interest of the voters or improve the process of democratic choice.

If Candidate Jones is for high-fidelity phonograph ensembles, paid for by the Government, to quicken the output of reindeer milk on the Florida Gold Coast — that's fine. But must the poor fellow say it from January to November, from Portland to Portland and from the Wil-

*We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!*

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS::1907–*"Over Forty-nine Years of Service"*–1956

liston Basin to Waco? And must the eyes and ears of the voters be assailed with this topic, however vital, until the quadrennial exercise that we call a Presidential election becomes an abomination?

At least it is understandable why the British say a man "stands" for office, while in this country we insist he "runs."

**STEEL SCRAP PRICES** . . . Although steel production remained near full-tilt levels last month, prices of steelmaking grades of scrap declined no less than five times during the course of the month. This series of price drops brought the figure down by $9 per ton from its record peak of $54. Declining demand for scrap pointed to expectations of a lower operating rate in the steel mills in the months ahead.

In the event of a steel strike, demand for scrap would dwindle sharply. And if a strike were avoided, there would be a considerable decline in the steel operating rate, since many customers have bought heavily to protect themselves against such an eventuality and an anticipated rise in steel prices.

Also contributing to the decline in scrap prices is the curtailed demand from overseas buyers. Foreign interests bought a record 5 million tons of United States scrap last year. Demand continued to soar in the first two months of this year, but March was off more than 100,000 tons from the February peak and there was no sign of recovery in the weeks following.

Scrap steel increased in cost some 50% during 1955. The increase in exports of iron and steel scrap from 1.5 million tons in 1954 to 5 million in 1955 was a prime factor in this rise. The lowered price for scrap should be of immense benefit to innumerable steel producers and fabricators.

As a footnote to the declining demand for scrap from abroad, it should lessen the clamor within the steel industry at home for Congressional action.

**PEARLS OF WISDOM** . . . Asked on a television program what a revolution was, President Sukarno of Indonesia, an authority on the subject, said it was something new taking the place of something old. As for timing, he said thoughtfully, the idea was to strike when you were strongest and the other side weakest. Karl Marx said it even better: "Force is the midwife of every old society pregnant with a new one."

These pearls of wisdom ought not to be cast aside lightly at a time when the Free World seems bent on convincing itself that cuts in the armed forces announced by the Kremlin are a signal to drop our own guard.

**STAMP FEVER** . . . Anyone who lived in a big city a generation ago will have no difficulty recalling the enterprising youngster who took up his station outside the corner chain cigar store and asked the emerging buyer of tobacco products for his coupons. Those coupons were redeemable for hundreds of varied products, but the young man, almost invariably, was saving the coupons for baseball paraphernalia—glove, bat, ball.

The youngster we recall had a mother who went to the movies each week, whether the photoplay appealed to her or not, because she was intent on getting from the theatre operator a cup or saucer. Regular attendance enabled her to round out a dinner set.

Since this lady already had a dinner set, we often wondered why she didn't spare herself many tiresome hours watching dull movies. A fraction of the money spent thus would have enabled her to buy that catcher's mitt for the boy.

This lady also patronized a department store that gave stamps to customers. She bought many things she did not need and could not afford, but if she refrained from making substantial purchases it would take a very long time to fill the book of stamps. Those stamps were exchangable for comb-and-brush sets, appliances and numerous other items.

The stamp fever is with us once more. Even if you haven't patronized a store that issues stamps, chances are good that you have them anyhow, for many chain stores (notably in the food line) have sent them to people along with a shiny catalogue, an invitation to fill the book and many more books.

Merchants pay on the order of 2% to 3% of their gross sales for the stamps, an onerous burden for food supermarkets, which operate on an extremely narrow profit margin. The storekeeper who sells food (or gasoline, or drugs, or provides a garment-cleaning service), naturally, hopes there will be sufficient rise in his volume to offset the cost.

Many merchants, large and small, have achieved considerable success by exploiting the stamp fever, which might be diagnosed as a something-for-nothing sickness that afflicts millions of Americans today.

The upsurge in business, however, has a habit of subsiding when the worried competitor takes in stamps, too. Then the enterprises find themselves with no advantage whatever and the considerable disadvantage of giving away a piece of their profits to manufacturers of wallets, appliances, sporting goods and other producers who contribute nothing to their business.

They could, of course, band together and agree to drop the stamp idea. That way they will incur the ill will of customers who have grown accustomed to getting something for nothing. They may be sure that the patron who got a cigarette-lighter or pop-up toaster last week for stamps will not take kindly to the abandonment of the something-for-nothing plan.

It may even be that price cuts in porterhouse in lieu of stamps will fail to assuage customer pangs. After all, a low-price cut of loin pork is not nearly so dazzling as a "free" portable radio.

**TOO FREE SPEECH** . . . When U Nu, Prime Minister of Burma, visited with us several months ago, he was asked if he had any criticisms to make. This wily Oriental said: "You talk too much."

If it had not occurred to us before that Americans, especially public officials, are more loquacious than the foreign breed, U Nu gave us something to think about. There was the example of the key Cabinet figure who made an invidious, albeit innocent, comparison between canines and craftsmen. In recent days we have had the White House aide sounding off about the right to suffer in a free society and the former White House chief being quoted about "squirrel-headed generals."

We doubt that our garrulous officials could be prevailed on to try the Oriental system of Yogi, which entails standing on one's head. They have found the foot in the mouth such a comfortable posture.

# *As I See It!*

By CHARLES BENEDICT

## EXPEDIENTS ARE DILUTING OUR STRENGTH

The power of any country lies in the character and quality of its people—not in its wealth. This has been proven again and again in the rise and decline of nations throughout the centuries.

Material wealth imprudently administered makes a people soft and encourages probing for weak spots by those hungry for riches and power. And when the leaders are as flabby with good living as are the citizens of a country, they waste their resources upon temporary stop-gap expedients, lacking the courage to take the proper steps necessary for a realistic solution of a problem. This weakness brings on a rush to get some of the gravy by the slick and greedy at home — and attracts the schemers abroad like flies to a honey pot.


***"Why Don't You Do It the Hard Way?"***

*With Apologies to New York Herald Tribune*

That is what is happening to our country in this election year. We see organized groups through their spokesmen making uneconomic and unsound demands, under the threat of withholding their votes if these demands are not met. At the same time we are beset by insistent pressure from recipients of our unreasoning generosity abroad—asking for more cash for one purpose or another—or else. And "or else" is Russian adherence or so-called neutralism. And what is more, they no longer want to feel beholden to the United States for favors, and so suggest an impersonal distribution of our funds through the United Nations. Further to prove the folly of our policy, we are being asked to go home and leave behind us invaluable installations worth billions of dollars in American taxpayers' money.

The revulsion among the people of this country against pressure groups at home and abroad is widespread—disillusionment is rife.

Just recently the ballyhoo of the farm leaders threatening the loss of the farmers' vote was exploded by the primary election in the agricultural states of Indiana and Nebraska, where practical-minded farmers expressed their preference for Eisenhower, the exponent of flexible parity and relief from mountainous surpluses.

Too, — for sometime now, workers have been manifesting dissatisfaction with the strong-arm methods used to hold them in line, and have openly voiced fears of the consequences of new strike negotiations, as the financially formidable union leaders foment trouble with uneconomic demands in the face of what looks like a developing recession.

Yet, despite this outlook — labor leaders are illogically planning to cut down the 40-hour week (with the same pay) — and handing the workers a lollipop in the shape of a paid holiday on their birthdays. I'll wager the next fringe benefits will call for free entertainment during leisure hours — to prevent boredom!

In the last days of Ancient Rome the government instituted the sport "circus" as a way of entertaining the people, in which the spectacular attraction was throwing the early Christians to the lions. But did this bring happiness or contentment? It did not — the people became more disgruntled than ever and thought they had the world by the tail. They revolted shortly thereafter and pulled down what remained of a great and liberal empire.

This proves that common sense rather than nonsense is the only solution to the problems that beset us. Placating one group or another is a dangerous procedure and encourages one abuse after another. Loose methods and resort to expedients always earn the disrespect they deserve.

Our attempt to ameliorate hardships through unemployment and social (*Please turn to page* 388)

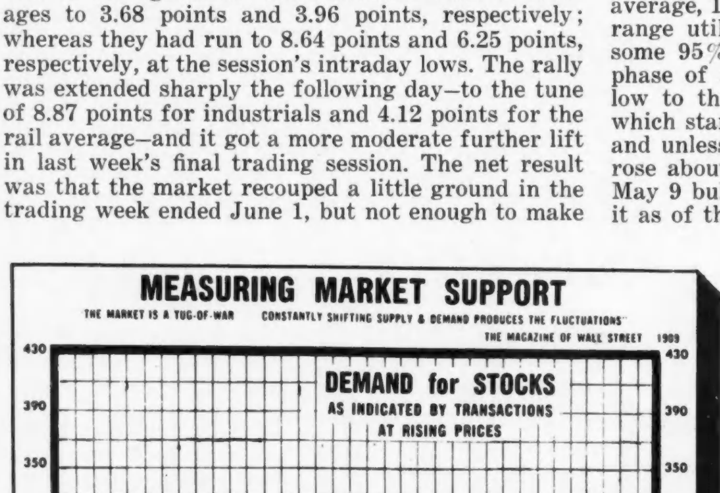
# Market Forecasting Business Trends

**Market behavior after exhaustion of the current rally, and also during the summer period of normal seasonal rise, will throw more light on the question whether the major upward trend has put its crest behind. Downtrends are evident for a number of stock groups. Others are still getting support. A generally cautious, highly selective policy remains in order.**

**By A. T. MILLER**

The recent decline in stock prices was extended into the session of Monday, May 28, in which, at least for the time being, an over-sold position was established and a rally got underway. It pared that day's final minus figures for the industrial and rail averages to 3.68 points and 3.96 points, respectively; whereas they had run to 8.64 points and 6.25 points, respectively, at the session's intraday lows. The rally was extended sharply the following day—to the tune of 8.87 points for industrials and 4.12 points for the rail average—and it got a more moderate further lift in last week's final trading session. The net result was that the market recouped a little ground in the trading week ended June 1, but not enough to make up for relatively sharp retreat in the preceding week. Thus, it now stands at a somewhat lower level than a fortnight ago, when our last analysis was written.

The decline from earlier 1956 tops to the May 28 closing levels amounted to 10.2% for the industrial average, 10.8% for rails and 4.5% for the moderate-range utility average. For industrials it cancelled some 95%—all but about 3 points—of the 55-point phase of advance from the mid-February reaction low to the April 6 bull-market high – an advance which stands as the last leg of the bull market until and unless the contrary is proved. The rail average rose about 26.7 points from its February low to a May 9 bull-market peak and gave up about 73% of it as of the May 28 closing low.



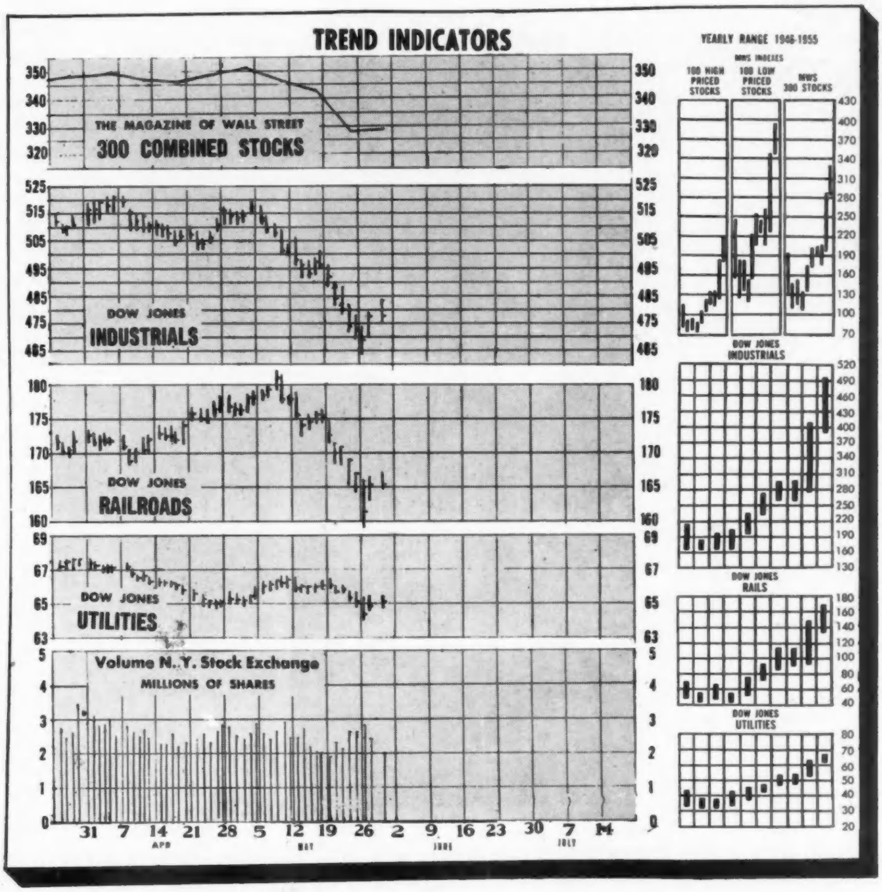

### This Is No "Correction"

The percentage declines in the two averages closely approximated those suffered last September-October as a result of the news shock of President Eisenhower's heart attack. No previous technical correction in this bull market —that is, a reaction unrelated to disturbing news of any kind—has run anywhere near that far in retreat from a prior high or in percentage of a prior leg of advance cancelled. The extent of this sell-off, the fact that it started from a high level of stock prices after an uptrend of major duration, and the fact that it has developed in an environment of increasing doubt about the business outlook combine to pose this question: Has the bull market finally topped out? The tentative evidence points that way, but is not conclusive. More positive light is needed, and will be forthcoming in due time. The performance after exhaustion of the current rally—which so far has made up not much more than a fifth of the April 6-May 28 retreat by the industrial list—will bear watching as regards a test or extension of the May 28 low. Market behavior within the July-August period of normal seasonal strength also will provide a test. A limited summer recovery, leaving the averages under their spring tops, would add to adverse trend evidence.

The immediate business picture is mixed, with the soft spots at least slightly outweighing the strong ones—

suggesting that the Reserve Board production index may show small dips for May and June. A further easing within the third quarter is widely expected, principally as a result of additional sharp curtailment (greater than seasonally normal) in automobile output; and reduced steel activity while excessive inventories of some types of steel are worked down. This has by now been pretty well allowed for in investment thinking. So also has been the possibility of a steel strike, which could, of course, drastically affect industrial activity, rail traffic and related activities through its duration.

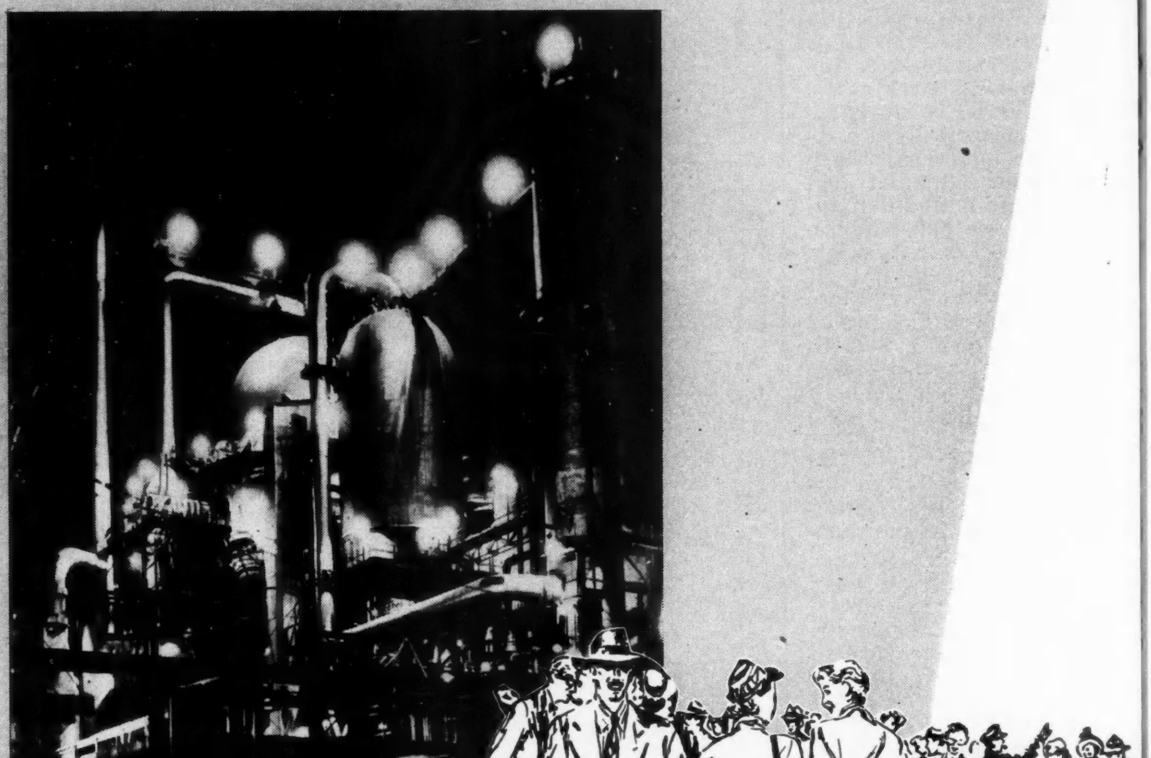
However, there is logic in the old adage: "Never sell stocks on strike news." A strike is a temporary and artificial stoppage of production; and production losses thus caused figure to be made up later. A 10% shrinkage in demand for a product has more investment significance than a 100% strike-caused production stoppage. In this instance, a steel strike would have a bright side. It would speed up steel inventory adjustment where it is needed, result in a further buildup of order backlogs in the case of types of steel which so far continue in short supply, and, if it subtracted something from third-quarter business activity, it would add proportionately to fourth-quarter activity. A steel strike would not be a reason for market disturbance—but it might be an excuse for a fainting spell in an already disturbed market.




Comprehensive data on business take time to assemble, and so can be well behind events. Thus, with June now in progress, we get the Commerce Department's report on April trends in manufacturers' sales, new orders and inventories. Compared with March, actual sales were down $1.1 billion and new orders down $1.2 billion; but seasonal adjustment (which can be a complicated business) translated these into gains of $200 million and $600 million, respectively. In any event, at $27.3 billion (adjusted) in April, sales have gone nowhere for some time. That level was reached as far back as last November; and it is only a trifle above the figure ($27.1 billion) which had been attained by last June. New orders (adjusted) set a peak of $29.3 billion in December. At April's level of $27.5 billion they remained above a year ago by the happenstance of one month. That is, the same comparison with May, 1955, instead of April, would have shown some shrinkage. Inventories rose further in April to a level nearly $5 billion above a year ago partly due to higher valuation of stocks in consequence of price rises, partly to physical expansion. Backlogs were unchanged from March, with the total of unfilled orders still $9.2 billion over a year ago.

The principal inventory excess is in automobiles at the retail end; and, in more moderate degree, in appliances, textiles and light steels. There is no serious over-all inventory maladjustment, measured by ratio of inventories to sales; but much depends on whether sales pick up later on, remain in the doldrums or dip. Judging by the latest survey of the National Association of Purchasing Agents and by other straws in the wind, manufacturers' orders and sales probably eased a bit in May, and will be off somewhat for June.

The strongest feature in the present picture is the high and rising level of outlays for new plant and equipment. They may or may not come up to the optimistic levels indicated by recent surveys, but there is no reason to doubt that they will set a new record this year; and their increasing momentum suggests that their fourth-quarter level will be the highest of the year. Retail trade is holding close to peak levels, but has been flat for many months. The continuing rise in personal income, combined with a much slowed rate of increase in instalment debt in recent months, may imply a basis for at least moderate improvement in trade in the late months of the year. Over-all building outlays have continued in line with the high year- (*Please turn to page* 387)



# Today's Man-Made Business Cycle

**Forces Active in 1929 vs. Those Operating Today with Forecasts of Business Investment Trends**

By HOWARD NICHOLSON

Between 1922 and 1929, the American economy enjoyed a period of almost unprecedented, persistent expansion, during which the value of the nation's production increased roughly 40%. Prices were fairly stable; unemployment was reasonably low except for brief and shallow recessions in 1924 and 1927. The Federal Reserve stood ready to adjust the volume of credit to the needs of business; the automobile and utility industries were promising to provide an endless stimulus for the future, population was rising rapidly, and securities markets, with minor interruptions, were behaving in a way to satisfy the most critical investor. In short, all seemed right with the world, and the American economy seemed on its way into an historic new era in which abundance and success were to be the lot of every man.

It is hardly news that the new era foreseen in the 1920's was a long time coming, and that in the interim the old era asserted itself in one of the most intractable, prolonged, misunderstood and bitter depressions in industrial history.

This excursion into the business trend of three decades ago is not without a strong current relevance. Over the past decade, as in the 'twenties, the American economy has again been performing miracles of abundance with an apparent minimum of dislocation, and with virtually no serious unemploy-

ment. And as in the 'twenties, the opinion has grown that the new economy is virtually foolproof, or recession-proof; that it is buttressed, snubbed and armed on all sides against the onslaught of depression, and that nothing, or nearly nothing, can any longer interfere with its rapid expansion. The traps that beset the business trend of the 1920's are gone, and the course is clear.

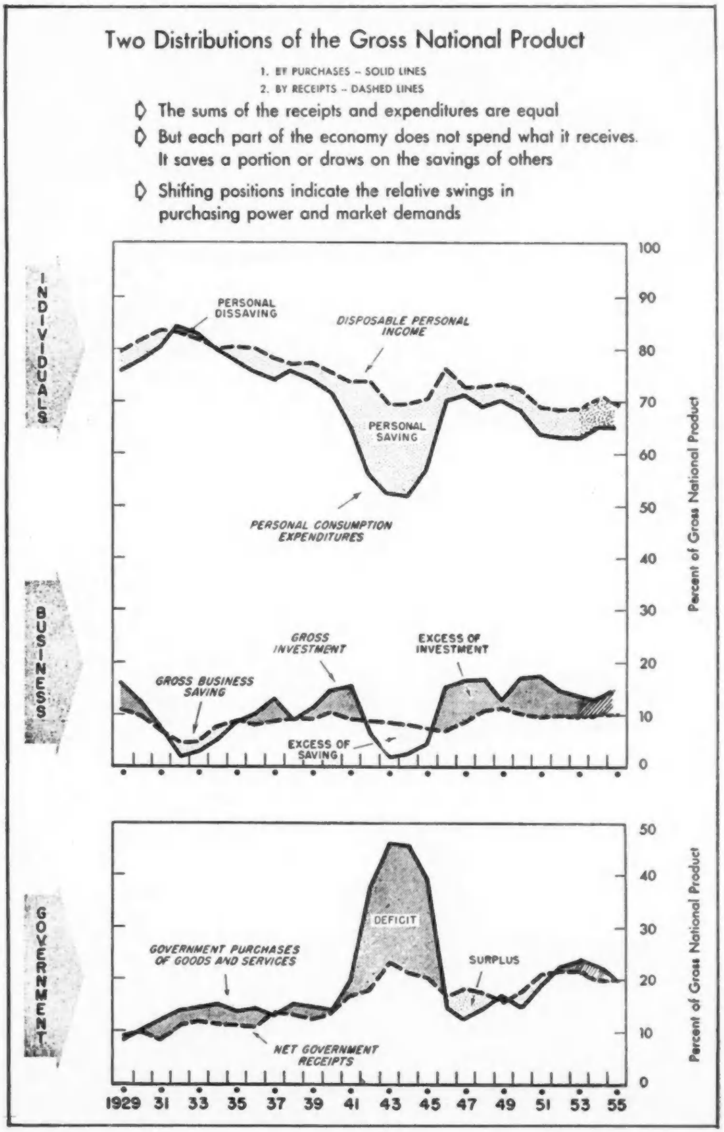
It would be easy to argue that the dangers which were unforeseen in the 'twenties exist again today, and are again unforeseen, and that for this reason alone 1956 is no year in which to abandon prudence and caution. But the dangers of 1956 are not nearly that simple. It is true, to a degree that surprises economists themselves when they think about it, that the structure of American business, and its political environment, are now radically different from what they were thirty years ago; it may well be true that the basic underlying diseases of the 1920's have been cured for all time. But that only means that the problems of today are more sophisticated and difficult. Not only are we uncertain whether we have cured the disease of the business cycle; we are not yet at all sure that the cures themselves may not lead to more violent consequences than the diseases at which they were directed. There is, indeed, considerable evidence that in the late postwar years we have been experiencing an increasingly artificial boom, supported by constant and growing doses of economic stimulants which are endangering the basic health of the patient. To explore this subject, it is necessary to examine business conditions in the 'twenties and as they appear today; to note the fundamental changes that have occurred, and what new devices have been added to the economic pharmacopeia to maintain the current rate of national growth.

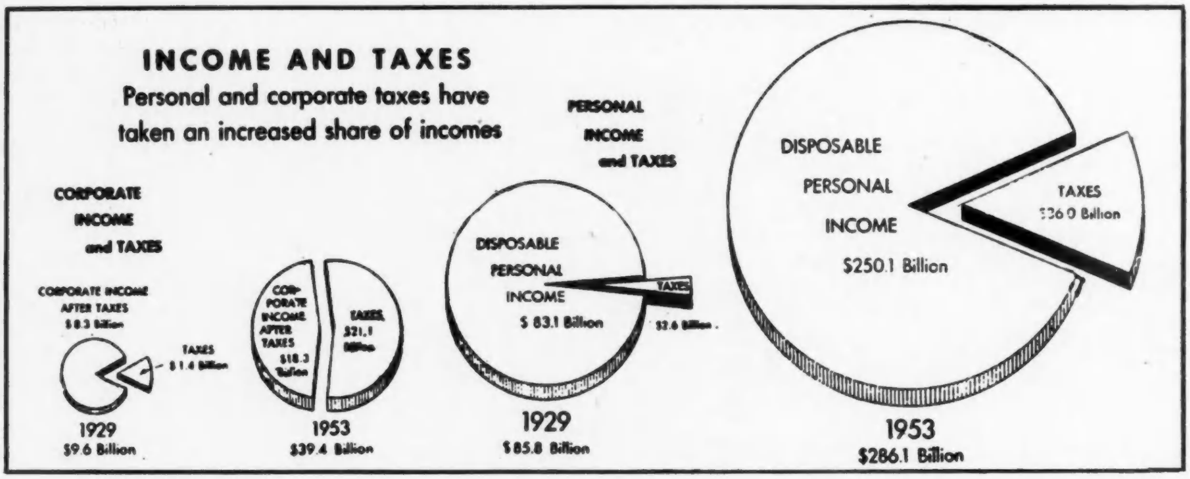
### Business Before the Depression

The half-decade preceding 1929 has frequently been called the hey-day of American capitalism. In those years, the Federal government was small (and despite low tax rates it showed a persistent surplus). Labor unions were small, at least relative to today. The Federal Reserve was in existence, but it was reticent and unpracticed in the field of money management. The banking system was largely free to invest as it saw fit, and deposits were not subject to guarantee (that is, they did not have the faith and credit of the Federal government behind them). Legislative and administrative restrictions over financial and productive activity were minimal. Property incomes loomed relatively large in comparison with labor incomes. Supplementary payments of income not earned in business activity – that is, veterans' benefits, or unemployment insurance, or social security benefits – negligible.

Under these conditions of business freedom, business itself was almost the sole contributor to national wealth, a fact which made for a tremendously dynamic but unstable economy. It also made for a highly speculative economy, in which changes in sentiment were promptly and substantially reflected in the prices of real estate and securities. When, in the late 1920's, a new era of permanent prosperity appeared to be approaching, the effect on securities in particular was phenomenal. With credit easily available, and virtually no limit on marginal holdings, the national sense of prosperity broke out in a violent rash of speculation which culminated in a sudden pyramiding of basic values, and then an equally sudden collapse.

Behind this speculative fever, however, economists have also uncovered more fundamental organic disorders in the 1920's. Throughout that decade, the national capacity to produce was increasing at a rate considerably faster than the national capacity to take






goods off the market. The national distribution of income was concentrated in such ways that the mass markets required to take the output of mass production were lacking. Speculative building activity had produced an overbuilt condition, and lead to a long-term decline in construction activity. A persistent uptrend in both short-term and long-term (mortgage) debt was encroaching on the purchasing power of the American public.

These were doubtless enough to precipitate serious recession in 1929, perhaps even without the unwelcome assistance of a collapse in security values. But once the recession began, there was little in the economic structure of the 'twenties to dampen it or arrest it. As production fell, so too did incomes, and the decline in incomes precipitated a further withdrawal of production. The link between business income and business activity, in the absence of a large government sector, was complete and perfect, and the two sank down together. Similarly, in the absence of an effective substructure for the banking system, the calling of loans precipitated further calling of loans, distress sales, forced liquidations and bankruptcies, in a long and vicious chain, until the banking system itself collapsed under the pressure of cash demands. The government, uncommitted by law or precedent, was almost helpless to assist the private sector as it recoiled on itself, and the size of government was not great enough to give its mere presence any palliative influence. The earning power of corporations disappeared, capital values receded, confidence was broken. With the loss of confidence, the dynamic, unstable, mercurial, fascinating structure of the 'twenties came down in a heap.

### Business after World War II

It should be clear, almost without mentioning it, that the business system of the postwar years, while it is still capitalism, has become in many respects unrecognizable as a descendant of the economy of the 1920's. What is noteworthy, however, is that virtually all of the major changes in economic institutions since the 'twenties have acted to dull and dampen the power of the business cycle.

In the first place, the role of government has been augmented to the point where its present size makes it an almost equal partner with business in economic activity. In 1929, the Federal government accounted for about 1% of national expenditures; in 1955, it accounted for 12%. In 1929, private business investment – in construction, machinery, and additions to inventory—was double the value of all expenditures by federal, state and local governments; in 1955, government outlays were 25% greater than all private investment.

Whatever may be the unfortunate consequences of big government, one of its obvious advantages is its stabilizing influence on total activity. Government spending is fully insulated from the ravages of the business cycle; in fact, its spending tends to rise (as with unemployment insurance) when private spending falls, and vice-versa. Moreover. the highly progressive tax structure of today, while it may have serious disadvantages on other counts, tends to dampen fluctuation in after-tax private incomes; of every dollar decline in corporate profits, the Federal government now bears 52 cents, in the form of a reduction in tax liability.

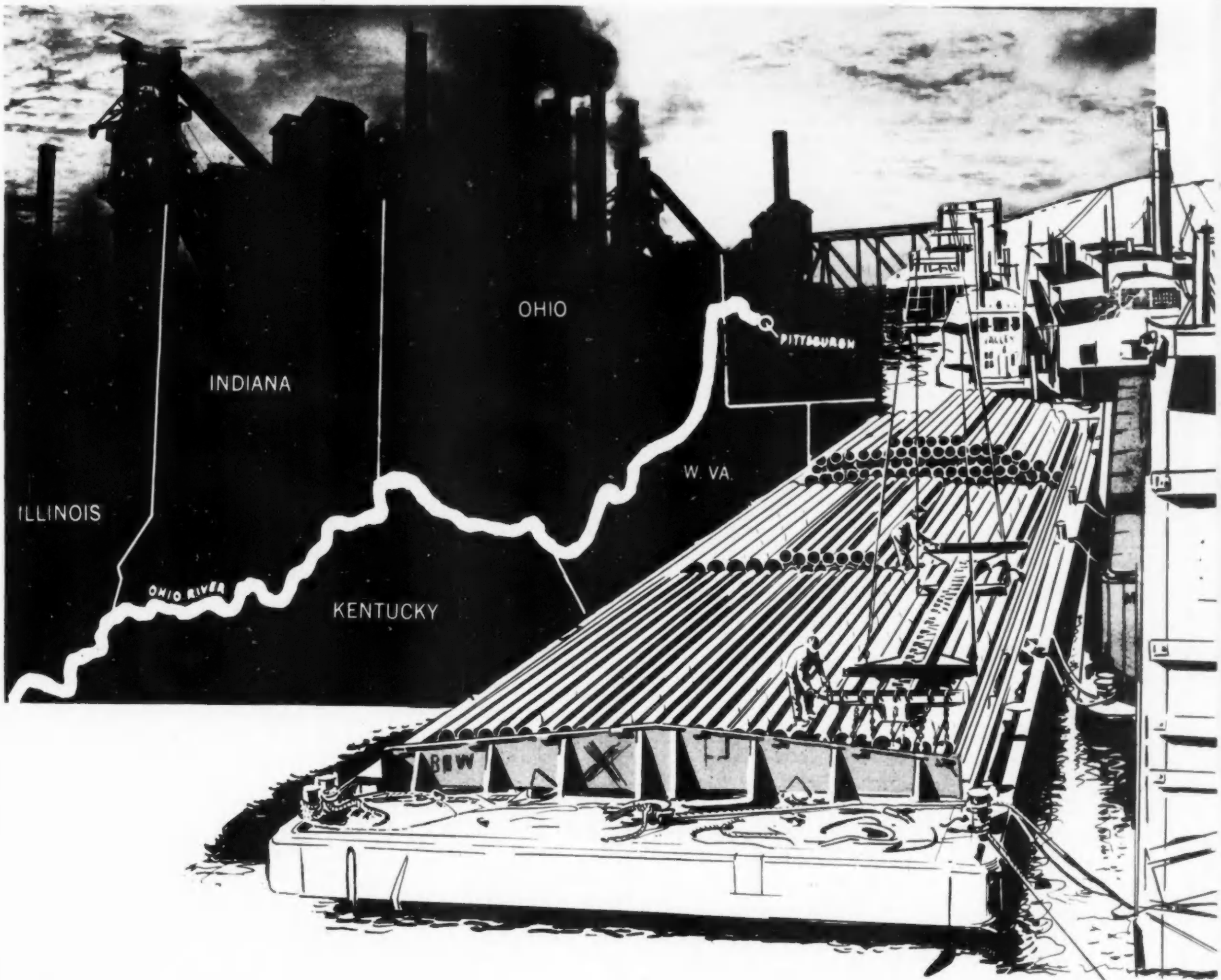
### The Role of Labor

Another outstanding alteration in the structure—and, again, one that may have very unfortunate consequences in other respects – is the rise of organized labor, and the application of labor's strength in the direction of persistent inflation. In the postwar years, there has been little danger of production outstripping demand; unions have consistently followed the practice of fighting for wage increases over and above what the inflationary atmosphere of market would require for a normal balance of markets, and in the postwar years, they have consistently won.

Nor is it only with respect to industrial labor that the postwar years have seen a major change in the income flow. Fifteen years of virtually full employment, at high and constantly rising compensation levels, have effected a redistribution of before-tax incomes in the distribution of greater equality. And the imposition of steeply progressive tax rates has made after-tax income distribution vastly more equal than was true during the 1920's.

(*Please turn to page* 383)

**Part II of our series on Transcontinental Dispersion of Industry**




# *Transformation in the OHIO VALLEY*

## *Opens New Vistas of Opportunity*

By HAROLD WIELAND

From its conflux with the Allegheny and the Monongahela Rivers at Pittsburgh, Pa., the Ohio River flows southwest to Cairo, Ill., 981 miles away, where it makes its confluence with the Mississippi. Together with its numerous tributaries, including the Miami, the Scioto, the Tennessee, the Muskingum and the Kanawha, it drains thousands of square miles of land forming parts of Pennsylvania, Ohio, Virginia, West Virginia, Kentucky, Indiana and Illinois.

That is the Ohio Valley, sometimes referred to as the American Ruhr, but more accurately called the Industrial Heart of America. In the valley are some of the Nation's greatest steel plants which, along with other basic industries, have long been settled there. Until World War II, the industrial growth of the valley was at a pace that at the time might have been considered normal. Since then, however, as an expanding economy increased the tempo of industrial expansion and as the movement for decentralization of plants under the National Defense Program broadened, the Valley has attracted many and varied industries.

## Companies that have Recently Built or Expanded Manufacturing Plants in the Ohio River Valley

| | |
|---|---|
| Allied Chemical & Dye | Aniline oil<br>Organic isocyanates |
| American Cyanamid | Commercial alum and sulphuric acid<br>Dyes, pharmaceuticals, industrial chemicals and ultra violet absorbers |
| Armco Steel | Steel and steel products |
| Borg-Warner (Marbon Chemical Div.) | Chemicals |
| Carborundum Co. | Resin bonded grinding wheels |
| Celanese Corp. of America | Chemicals |
| duPont deNemours (E.I.) | Butacite |
| Eastman Kodak | Color film process laboratory |
| Ford Motor | Engine plant |
| General Electric | Home appliances |
| Goodrich-Gulf Chemicals | Synthetic rubber |
| Jones & Laughlin | Steel |
| Kaiser Aluminum | Aluminum plant and rolling mills |
| National Steel | Steel and steel products |
| Olin Mathieson Chemical | Integrated aluminum plants |
| Pittsburgh Plate Glass (Columbia-Southern Chemical) | Titanium tetachloride |
| Pittsburgh Plate Glass | Paint |
| The Pittston Co. (Clinchfield Coal) | Huge coal reserves |
| Union Carbide & Carbon | Electrometallurgical plant<br>Bakelite plant<br>Silicones |
| Vanadium Corp. of America | Low-carbon ferrochromium<br>Alloys and aluminum products |
| Wheeling Steel | Steel and steel products |

### Electric Companies in the Ohio Valley

Appalachian Electric Power Co.*
Cincinnati Gas & Electric Co.
Columbus & Southern Ohio Electric Co.
Dayton Power & Light Co.
Indiana & Michigan Electric Co.*
Kentucky Utilities Co.
Louisville Gas & Electric Co.
Monongahela Power Co.**
Ohio Edison Co.
Ohio Power Co.*
Pennsylvania Power Co.***
The Potomac Edison Co.**
Southern Indiana Gas & Electric Co.
The Toledo Edison Co.
West Penn Power Co.**

*Subsidiary of:*

* American Gas & Electric Co.
** West Penn Electric Co.
*** Ohio Edison Co.

The above 15 companies serving the Ohio Valley, joined together as the Ohio Valley Electric Corporation and put into operation two power plants at a cost of approximately $385 million all of which was privately financed, to provide the U. S. Government's gigantic Portsmouth, Ohio, atomic project, with electric energy at an annual rate of 1,950,000 kw.

## The Valley's Natural Riches

For those who have a knowledge of the many advantages the Valley offers to industry this rapid and steady growth is not difficult to understand. The Valley, embracing four of this country's seven leading bituminous coal producing states, contains the greatest reserves of metallurgical coal, these deposits being largely concentrated in Virginia, West Virginia and eastern Kentucky. This is the type of coal so essential to the steel-making process which requires approximately nine-tenths of a ton of metallurgical coal to produce a ton of steel. With these huge reserves of such coal relatively close at hand it is readily understandable why the Valley has steadily grown in importance as a steel-making territory.

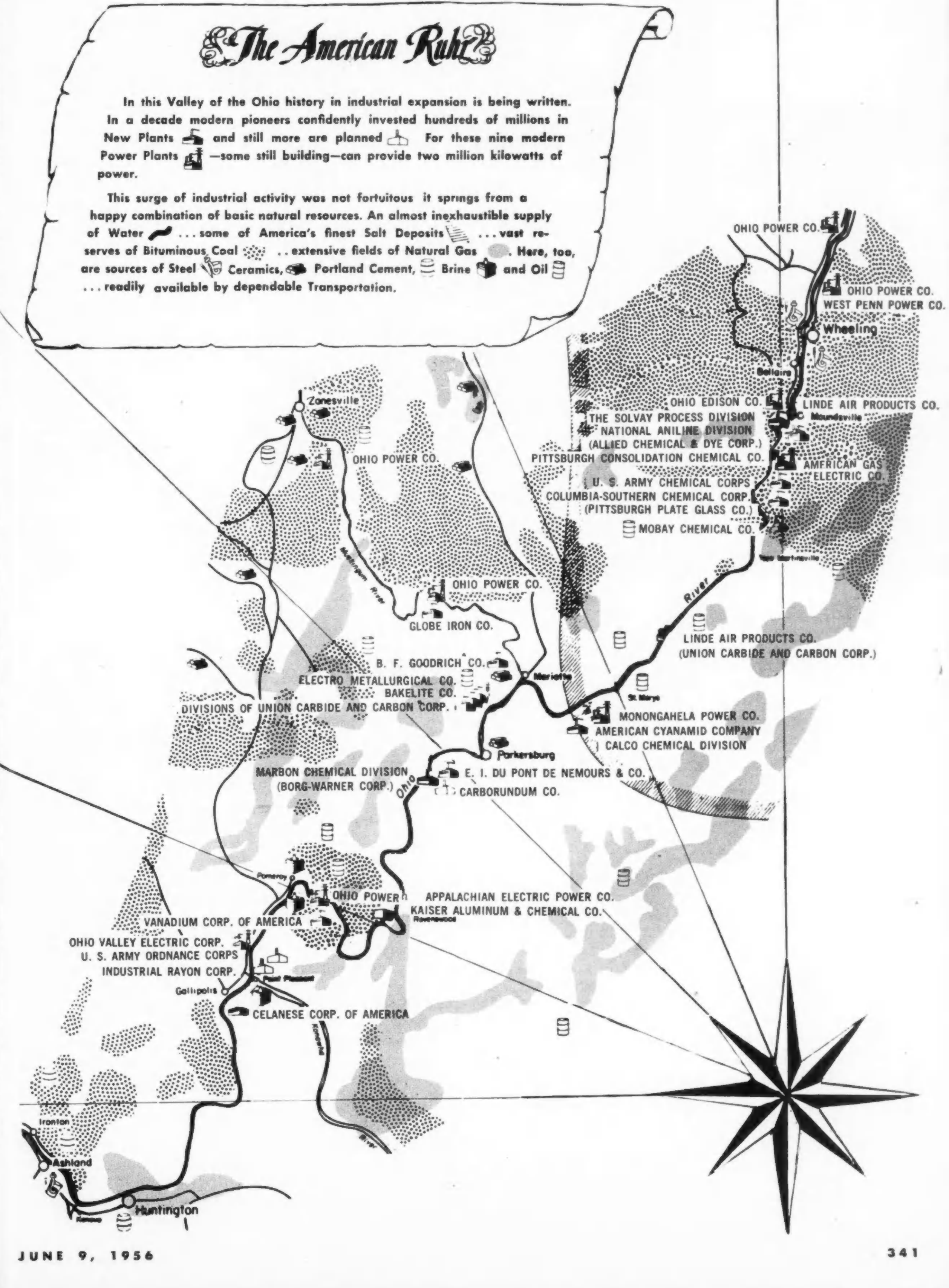
Weirton Steel, a subsidiary of National Steel Corporation, is constructing numerous facilities at its Weirton, West Va., Works, including another open hearth furnace which will have a rated capacity of 600 tons per heat to make it the world's largest steel-making furnace. In addition to its routine capital expenditures, Wheeling Steel announced last October, plans for further improvement and expansion costing an estimated $65 million, largely in connection with new facilities at the Yorkville and Steubenville, Ohio plants. Included in Armco Steel's current expansion program involving $111 million are three 300-ton open hearth furnaces, a coil temper mill, and additional facilities for coating steel with aluminum or zinc at the Middletown, Ohio plant, and a new open annealing line at the Zanesville, Ohio plant.

In addition to the large reserves of metallurgical coal in the Valley are enormous deposits of steam and other types of bituminous coal. In West Virginia alone, minable coal is present in 44 of the state's 55 counties and underlies more than 55 per cent of the total area of nearly 25,000 square miles. In 28 counties coal reserves are estimated at more than one billion tons to which, so far as the Valley is concerned, should be added the huge reserves in eastern Kentucky and Virginia.

Bituminous coal is not the only natural asset of the Ohio Valley. Other riches of the territory are petroleum and natural gas, clay and shale, limestone, brines and salt rock, sand and gravel, and various species of timber for sawmills, pulp and paper manufacturing operations, and for manufacturers of wooden products. The Valley has water in abundance. There are very few places in the Valley where lowering water tables are a serious problem. There are huge supplies of surface water for industrial use and ample sources for human consumption and sanitation.

## The Importance of Its Waterways

In addition to a network of highways, the Valley or certain sections of it are served by the Baltimore & Ohio, the New York Central, Chesapeake & Ohio, Pennsylvania, Norfolk & Western, Western Maryland, the Virginian, and a number of smaller rail carriers. The Ohio River itself is an important transportation artery. From Pittsburgh to Cairo the river is equipped with the nation's most extensive system of 46 navigation locks and dams. The River and its important tributaries, including the Monongahela, the Allegheny, the (*Please turn to page* 384)


The American Ruhr
In this Valley of the Ohio history in industrial expansion is being written. In a decade modern pioneers confidently invested hundreds of millions in New Plants and still more are planned For these nine modern Power Plants —some still building—can provide two million kilowatts of power.
This surge of industrial activity was not fortuitous it springs from a happy combination of basic natural resources. An almost inexhaustible supply of Water ... some of America's finest Salt Deposits ... vast reserves of Bituminous Coal .. extensive fields of Natural Gas . Here, too, are sources of Steel Ceramics, Portland Cement, Brine and Oil ... readily available by dependable Transportation.
OHIO POWER CO.
OHIO POWER CO.
WEST PENN POWER CO.
Wheeling
Bellaire
OHIO EDISON CO.
LINDE AIR PRODUCTS CO.
Moundsville
THE SOLVAY PROCESS DIVISION
NATIONAL ANILINE DIVISION
(ALLIED CHEMICAL & DYE CORP.)
PITTSBURGH CONSOLIDATION CHEMICAL CO.
AMERICAN GAS ELECTRIC CO.
U. S. ARMY CHEMICAL CORPS
COLUMBIA-SOUTHERN CHEMICAL CORP.
(PITTSBURGH PLATE GLASS CO.)
MOBAY CHEMICAL CO.
New Martinsville
Zanesville
OHIO POWER CO.
Muskingum River
OHIO POWER CO.
GLOBE IRON CO.
River
LINDE AIR PRODUCTS CO.
(UNION CARBIDE AND CARBON CORP.)
B. F. GOODRICH CO.
ELECTRO METALLURGICAL CO.
BAKELITE CO.
DIVISIONS OF UNION CARBIDE AND CARBON CORP.
Marietta
St. Marys
MONONGAHELA POWER CO.
AMERICAN CYANAMID COMPANY
CALCO CHEMICAL DIVISION
Parkersburg
MARBON CHEMICAL DIVISION
(BORG-WARNER CORP.)
Ohio
E. I. DU PONT DE NEMOURS & CO.
CARBORUNDUM CO.
Pomeroy
OHIO POWER
APPALACHIAN ELECTRIC POWER CO.
KAISER ALUMINUM & CHEMICAL CO.
Ravenswood
VANADIUM CORP. OF AMERICA
OHIO VALLEY ELECTRIC CORP.
U. S. ARMY ORDNANCE CORPS
INDUSTRIAL RAYON CORP.
Point Pleasant
Gallipolis
CELANESE CORP. OF AMERICA
Kanawha River
Ironton
Ashland
Kenova
Huntington

# New Government Tactics To Stem Trend to Bigness

By PHILLIP DOBBS

There is every indication that the Government intends to reverse the trend toward "bigness" in business.

There is no little surprise in corporate quarters at finding this pattern of action shaping up from the Republican Government in Washington which must know that economic processes spawned big business and that only big business can afford the costly research programs that are at the base of our developing society.

That political forecasting can be as uncertain as weather-predicting now is abundantly clear, for the Administration of President Eisenhower has launched more studies of antitrust law violations than either the New Deal of President Franklin D. Roosevelt or the Fair Deal of President Harry S. Truman. And this Government has done more than investigate – it has undertaken action after action, usually obtaining a consent decree that obviated the need to take an antitrust suit into the courts.

The most widely publicized achievement of the Government drive to date has been in the field of patents, but whole companies have not been overlooked either. At times, the two have been inseparable. Thus, in the case of American Telephone & Telegraph Co., the Justice Department originally aimed at ending the company's control of Western Electric Co., the manufacturing subsidiary. It settled, finally, for a consent decree that requires A. T. & T. to share more than 8,000 patents with other American companies.

### From Patents to Products

While A. T. & T. has been a target, International Business Machines Corp., another giant, also has consented to sell outright its business machines which hitherto had been rented only. The Government has struck at General Motors and also at the lesser giants – companies that loom large only by comparison with their competitors.

### Consent Decrees Obtained by U. S.

| Company | Agreed to |
|---|---|
| American Tel. & Tel. | Share more than 8,000 patents with other American companies. |
| Inter. Business Machines | Sell outright machines which hitherto had been rented. |
| Hilton Hotels Corp. | Sell properties in certain cities. |
| General Shoe Corp. | Sell stock in certain holdings and limit further acquisitions. |
| Am. Assn. of Adv. Agencies | Halt fixing of agency commissions. |
| Gen. Outdoor Advertising | Sell interest in four companies. |
| Eastman Kodak | Discontinue tying sale of amateur color films to processing of films. |
| *Makers of Freight Car Parts | Stop fixing prices and dividing up markets in concert with foreign firms. |

*The suit and consent judgment named as defendants: American Steel Foundries, Buckeye Steel Castings Co., Scullin Steel Co., Symington Gould Corp. and Foundries Export Co.

### Hotels, Shoes, Ads

The popular New Yorker Hotel, on the fringe of Manhattan's garment center, was sold a month ago by the Hilton Hotels Corp., for about $20 million. The Hilton chain bought the New Yorker as recently as December of 1953 from Manufacturers Trust Co. for a reported $12.5 million. Hilton's troubles were not with the New Yorker, but with the Justice Department which decided in April of 1955 that Hilton operations ran counter to the anti-merger section of the Clayton statutes when it acquired the Statler hotel group in October, 1954. Attorney General Herbert Brownell Jr. argued that the two corporations had been competitors in at least four cities and that the absorption of the Statler inns had erased competition for conventions and other types of business.

Hilton, like many others before it, promised a fight, but wound up accepting a consent decree and has been selling other properties to fulfill the obligations of the decree won by the "trust-busters."

Early this year, the Justice Department, moving in another field, was able to announce a settlement by consent decree of its antitrust suit against General Shoe Corp. of Nashville, Tenn., one of the nation's top shoe manufacturers. The decree limited further acquisition by General Shoe of other companies involved in the manufacture, distribution or sale of shoes. The settlement also required General to sell within two years any stock it owned in shoe manufacturers or retailers, other than its subsidiaries. Here, too, as in the case of Hilton, Government action came in the wake of a merger – indeed, the eighteenth.

The Government's original complaint, filed in March of 1955, charged that General Shoe's acquisition of Delman, Inc., New York, was part of a series of acquisitions which tended "substantially to lessen competition or to create a monopoly."

The settlement made this year prohibits General Shoe from acquiring any additional corporations engaged in the manufacture, distribution or sale of shoes until October 1 of this year. After that, General Shoe is prohibited from acquiring such firms until 1961, except with Government approval or upon showing that such an acquisition will not "substantially lessen competition or tend to make a monopoly." However, it may make purchases after October 1 without obtaining prior approval if the acquired corporation faces imminent bankruptcy or is simply being purchased to replace a retail outlet which General Shoe has lost.

In still another field, the "trust-busters" have won the day. In February, they announced settlement of their antitrust suit against the American Association of Advertising Agencies, Inc. The consent judgment bans the association from fixing commissions for advertising agencies. A year ago, the Government charged the association and five other groups with agreeing to fix agency commissions at 15% of newspaper and publishers' gross rates for advertising. The Justice Department wound up its fight on this front last month with consent judgments from the remaining publisher and advertising groups.

A five-year-old antitrust suit against General Outdoor Advertising was terminated last October with entry of a consent decree. The action involved no admission nor finding of any violation of the law by General Outdoor. However, the decree provided for sale of its interest in four companies. It was the familiar story of a com- (*Please turn to page* 381)

### *America's 20 Top Companies*

| | Net Income | | Net Sales | | Total Assets | |
|---|---|---|---|---|---|---|
| | 1955 | 1950 | 1955 | 1950 | 1955 | 1950 |
| | (Millions) | | | | | |
| General Motors | $1,189 | $834 | $12,443 | $7,531 | $6,344 | $3,444 |
| Standard Oil (N. J.) | 709 | 408 | 6,272 | 3,134 | 7,164 | 4,188 |
| Amer. Tel. & Tel. (Consol.) | 664 | 347 | 5,297 | 3,261 | 18,379 | 11,575 |
| Ford | 437 | 260 | 5,594 | 3,029 | 2,585 | 1,469 |
| Du Pont | 431 | 307 | 1,941 | 1,309 | 3,030 | 1,973 |
| U. S. Steel | 370 | 215 | 4,079 | 2,946 | 3,620 | 2,829 |
| Texas Co. | 262 | 149 | 1,767 | 1,248 | 2,114 | 1,448 |
| Standard Oil (Calif.) | 231 | 150 | 1,277 | 815 | 1,855 | 1,233 |
| Gulf Oil | 218 | 111 | 1,895 | 1,150 | 2,160 | 1,344 |
| Socony Mobil | 207 | 128 | 1,721 | 1,367 | 2,362 | 1,609 |
| General Electric | 201 | 173 | 3,095 | 1,960 | 1,727 | 1,277 |
| Bethlehem Steel | 180 | 123 | 2,096 | 1,439 | 1,998 | 1,314 |
| Sears, Roebuck & Co. | 158 | 108 | 3,306 | 2,169 | 1,596 | 808 |
| Standard Oil (Indiana) | 157 | 123 | 1,781 | 1,303 | 2,332 | 1,640 |
| Union Carbide & Carbon | 140 | 124 | 1,187 | 758 | 1,372 | 869 |
| Kennecott Copper | 125 | 88 | 548 | 396 | 793 | 631 |
| Shell Oil | 125 | 94 | 1,484 | 915 | 1,207 | 719 |
| Chrysler | 100 | 127 | 3,466 | 2,190 | 1,362 | 743 |
| Phillips Petroleum | 95 | 51 | 910 | 533 | 1,201 | 667 |
| International Nickel | 91 | 48 | 416 | 228 | 519 | 342 |

# Inside Washington

**Atomic Enterprises Occupy Hill**

By "VERITAS"

**HISTORY** is repeating in Congress as determined partisans battle the issues raised by the Potter-Pastore Bill against a background reminiscent of the fight which preceded enactment of the Holding Company Act. The bill would grant broad exemptions for utilities and industrial concerns in the field of atomic power experiments; it would permit neighboring utilities to own an atomic generating company jointly and escape regulation as holding companies. Investment dollars will not be forthcoming as readily if strait-jackets are applied, runs the "pro" argument. Opponents say the Holding Comany Act hasn't stood in the way of progress and that essential controls are flexible.

**WASHINGTON SEES:**

Two agencies of Government are reappraising import policy with emphasis on defense-serving materials and the result could be some drastic shifts, particularly with respect to oil.

The Office of Defense Mobilization has been viewing with concern approaching alarm the existing formula designed to cut the inflow of petroleum. The joint economic subcommittee on Capitol Hill is displaying broader interest, marked by some criticism of the "fortress America" idea. Hearings are in contemplation by the Bolling Committee. On the witness list will be industrialists, marketing experts, representatives of State, Defense, Treasury, and Commerce Departments.

Arthur S. Fleming, chairman of the Cabinet Committee on Fuels, called for the new look at the oil import formula. As a basis, he has reported residual oil arriving substantially in accord with the formula and crude oil arriving in excess.

The so-called formula was created February 26, 1955. It provided for imports of oils at the ratio to domestic production that prevailed in 1954. Congresss, last year, ordered closer scrutiny; it had been complained that receipts were becoming too large.

**ADMINISTRATION** opposition appears to be in the offing, despite the fact that bi-party sponsorship is apparent (Potter, Republican; Pastore, Democrat). The White House is super-cautious because of the gas-bill fiasco and the "giveaway" campaign slogan. Securities and Exchange Commission veto has been written and could be quite effective. SEC says the Holding Company Act prevents evils and abuses without being punitive or repressive and it would not block atomic experiments. Defiantly, the agency calls for proof that the present law has ever hindered development of hydroelectric projects, or others, under the sponsorship of two or more public utility companies.

**HOUSING** program is reported in the trade as "paler, but not yet dark." The Veterans Administration mortgage guaranty program, the Federal Housing Administration's report on the secondary or resale market for mortgages and the analyses of the U.S. Savings and Loan League add up to this conclusion. Indications are that money is available but lenders are more exacting in their requirements. A Congressional committee under Rep. Albert Rains (D—Ala.) plans roundtables this month to discuss funneling pension funds into the mortgage market.

**FLOOD INSURANCE** now appears to be approaching realization. Before the House is a Senate-approved bill which would make Government a partner with private assurers in coverage for business, residential and public property. Uncle Sam would pay 40% of the cost. Background of the measure and source of its voting strength was the series of disastrous New England floods.

# As We Go To Press

There will be a recess on rose-colored picture-painting if politicians take the advice of economic counsel to Government agencies. They are urging that the facts be permitted to speak for themselves and tell the story of improved individual and corporate income, satisfactory outlook, and a better-then-expected tax situation. To go beyond the record, is to invite trouble. Not every aspect is good and promising. The less the guarantee, the less the accountability, is the sage advice.

Basic, and hammered home to the point where the man in the street now considers himself expert, is the farm-income status and outlook. There has been some seasonal improvement, but agriculture expected that. What was hoped for, because it was promised, was a bloom burst of prosperity. It isn't in sight regardless of what Congress may do legislatively. And it will be a drag on the general economy. Investors, speculators and traders generally are reported to be jittery over the calm of the past several months. There has been no discernible rise, or fall, in the major indicators; the inactivity is worrisome because eventually business must move, one way or the other.

As if the farm situation weren't worry enough, there is a developing trend in automobile industry that interests every bureau, including Department of Agriculture. This is a season of normal activity. Movement of cars to ready market more resembles the late Fall change-of-model season than it does the spring and early summer. Layoffs in the auto centers are numerous: General Motors, American Motors, Chrysler in the larger group and others along the route. The situation is epitomized in Detroit Mayor Cobo's petition that his community be declared an emergency labor surplus area for industrial "force feeding." The Mayor says 8.1% of the labor force is idle. State Labor Department data up that figure to 190,000. When May and September production figures balance, the industry is regarded to be sick. That balance will exist this year.

Congress has been trying to discover what is wrong with the automobile industry this year. It's devoting a few weeks to what the more expert departmental key men have been spending months on and turning up some answers, but no cures. It seems clear that the market has been oversold and the saturation point is at hand -- not everywhere but in too many areas. Then, too, long-term credit practices create a situation which finds many owners of 1954 autos still paying on their contracts. Ad agencies have been hinting at revolutionary changes in design and equipment in 1957. Customers seem willing to wait.

The home-construction industry with roots in many supply and service lines and with a huge chunk of the invested dollar going into payrolls, on the job and elsewhere, hasn't had the expected spring rush of business. Housing starts in April were 10% over those of March, but 20% off for April. For the first half of 1956, home "starts" will be 16% under the corresponding months of 1955. Building materials now cost 6% more than one year ago and the boost in labor costs is even higher. Neither shows signs of leveling off.

Steel prices are going up. How much will depend on the figures written into new labor contract. The last round of steel wage increases didn't have an immediately depressing effect on the markets of its fabricators. Then, as now, tonnage purchased in anticipation of the higher prices had created business and taxed productive capacity to the hilt. But there is uneasiness as the fateful July 1 day of reckoning nears. Management knows what's coming, but lacks precise figures. Estimates of price boosts range between $7 and $15 a ton, depending on what comes off bargaining table. The rush of business in recent months means little will be sold out of inventory. As a companion fact, expected drop in new orders means little will be produced for inventory.

After standing as an open target for Democratic attack for three years,

Agriculture Secretary Era Taft Benson has been shunted aside. His closest rival for "attention" during that time was Defense Secretary Charles E. Wilson, free-talking industrialist who weighs his words carefully -- after he's spoken them. The farm-bill veto and Ike's announced candidacy has given the Demmies a new point of attack and shunted Benson aside. Wilson has had to give the spotlight to the agency heads under him while they brawl over which is tops in the "unified" services. So now it is pleasant and unspectacular John Foster Dulles who is feeling the barbs. When it's said that the United States is not engaged in shooting warfare anywhere, the story of the State Department is told. Neither is the country engaged in a winning diplomatic contest anywhere, say the Democrats.

▶ Write-in votes wherever party primaries are taking place have cinched Richard M. Nixon's place on the Eisenhower ticket. True, the President had said he would be delighted to have Nixon given the second spot again, but there was no note of demand. In fact, coupled with that assertion, was the reminder -- a series of them -- that selection is a function of the convention delegates. The Californian has had it his own way in the write-in department. While he has Ike to thank primarily, a close second is whoever persuaded him to clam up on the speech-making. Not having indulged oratory on a large scale in several months, Nixon hasn't alienated any politicians on either side.

▶ Gov. James F. Byrnes' attack on the Supreme Court didn't surprise many of those who watched him through the Washington years. The South Carolina Governor has a way of relating the importance of events to their harmony with his personal viewpoint. Naturally, he disliked the court's decision striking down racial segregation in public school classrooms. He had been elected Governor with a tacit guarantee that he would continue the practice in his state. When the High Court canceled his campaign promise, he took it as a personal affront. He reacted as he did when Franklin D. Roosevelt failed to deliver the vice-presidential nomination to him. Then he bolted his party, just as he bolted the court on whose bench he had served. In each instance, Byrnes went along with the prevailing ground rules until they got in his own way. Then, in each case, he demanded junking the entire institution.

▶ The Federal government has gone out of a few lines of business, pursuant to Congressional demands. But it is remaining in many more for the same reason: Congress won't permit closing down shops and stores. The Hoover Commission on Government Organization has made out a good case for ending official competition with private enterprise, but the story still hasn't been told. It can be told in a few selected statistics: Uncle Sam now has 19,771 business enterprises going and there are 258,428 civilian names on the payrolls. They have capital assets of $12 billion. Laundries, garages, supermarkets and services of every description are included. Principal justification is the lower prices on wares offered to service families as a "fringe benefit" associated with their employment. Labor has such benefits, the military men remind.

▶ President Eisenhower will balance the budget this year on the basis promised by Treasury Secretary George M. Humphrey about 12 months ago. There was to be no hocus-pocus, no new system of tax collection which called for paying two years taxes in one, but simply the fruits of improved business conditions, as harvested in the Treasury Department. It will be the first time in five years that Washington has lived within its income, reversed the public debt policy. Now the question no longer is whether a balance shall be maintained, but the amount of excess: will it be $1.8 billion, as Humphrey estimates, or $2.3 billion, the figure liked by the House-Senate Tax Committee?

▶ Around Washington, the latest figures have brought on an epidemic of drooling over possible uses of the new revenues. One year ago it would have been safe to forecast an income-tax reduction if incomes were even approaching costs of Government. The trend away from that thinking has been accelerated in recent months to the point where tax cut is seldom heard. Now there is emphasis on debt reduction. Except for a minor peck at the huge national debt in 1951 there has been no cut since 1948. A $2 billion slice off the debt would be substantial, yet diverting it to income-tax reduction would bring nothing more than token cut.


# American Capital in Canada— and Canadian Plants in U.S.A.

By V. L. HOROTH

A few months ago the manager of a collection agency in Des Moines, whose business volume had doubled in just a year, was reported by a New York financial journal to have complained: "My business is so good that it has me worried."

Apparently, Canadians feel much the same over their unprecedented prosperity. At least one gets that impression from skimming through most economic and financial comments from Canada. The country had a remarkable year in 1955, and 1956 will be even better by a considerable margin. However, with business tapering off somewhat south of the border, Canadians feel rather uncertain about the future. Although their economy has become more self-sufficient and better balanced since World War II they know that Canada now is tied to the ups and downs in U. S. business more than ever before.

There is some justification for the continued business upsurge in Canada. For one thing, there is the usual lag in business fluctuations. Canada's recovery from the '54 recession began somewhat more than half a year later than the recovery in the United States, although the dip there was not as pronounced. Subsequently, the recovery has not only been more pronounced than in this country, but by all indications should continue unabated for some time.

### Capital Spending Rises

Planned capital expenditures for '56 also assure good business for the remainder of the year. Last year, spending for construction and new equipment came to about \$6.2 billion. The first estimate of capital outlays for '56 put the figure at \$7.5 billion, about 21% higher than last year, but even this fantastic figure may be exceeded.

The third factor that has helped the Canadian economy to maintain its forward thrust has been, oddly enough, the hard winter in Europe. Wheat sales in '56 undoubtedly will be larger than last year, with the satellite countries making unusually large purchases. The Soviet Union has also undertaken to purchase annually up to 500,000 tons of wheat in each of the next three years for shipment to eastern Siberia. All this should help the prairie wheat-growing areas and the farm-equipment industry—two of several soft spots in an otherwise bright picture last year.

### All Regions Participating in Expansion

Major resources are being developed in every province. British Columbia, the size of California, Oregon and Washington combined, but with less than 10% of these states' population, is the fastest growing. Here are some major projects as listed by the Toronto *Financial Post*, illustrating the booming prosperity of Canada's West Coast:

**Table I—U. S. Trade with Canada**

(in millions of dollars)

| U. S. Imports from Canada: | 1954 | 1955 | U. S. Exports to Canada: | 1954 | 1955 |
|---|---|---|---|---|---|
| Newsprint and paper | 841 | 893 | Industrial machinery | 374 | 460 |
| Nonferrous metals | 365 | 415 | Automobiles and parts | 248 | 362 |
| Lumber and sawmill products | 224 | 286 | Electrical apparatus | 197 | 235 |
| Foodstuffs | 244 | 195 | Chemicals | 185 | 218 |
| Machinery | 114 | 127 | Coal | 178 | 184 |
| Chemicals | 89 | 88 | Foodstuffs | 161 | 176 |
| Petroleum products | 8 | 44 | Steel mill products | 137 | 174 |
| Iron and steel products | 20 | 36 | Textiles and cotton | 170 | 171 |
| All other products | 481 | 561 | Tractors and agri. machinery | 125 | 146 |
| | | | Petroleum products | 119 | 106 |
| | | | Other agricultural products | 80 | 59 |
| | | | All other products | 793 | 915 |
| Total Imports from Canada | 2,386 | 2,645 | Total Exports to Canada | 2,767 | 3,206 |

A $200 million plant expansion program in the pulp and paper industry.

First full year's construction on the $152 million Westcoast Transmission gas pipeline.

Record exploration and development program getting underway in the Peace River gas and oilfields.

One of the biggest prospecting drives in the province's history.

A stepped-up flow of foreign capital into the province with United Kingdom, French, and Italian money leading the parade.

A $100 million road and railway building program.

An $85 million power and development program.

Further $55 million expenditure on the expanding aluminum development at Kitimat-Kemano.

$15 million construction program for the province's first two major chemical plants.

Alberta and Manitoba report extensive new oil, gas, and mining projects. This will surely mean new records in mining production, the index of which shows a gain of almost 70% since the outbreak of the Korean war.

### Uranium Output Multiplies

Uranium continues to be the star performer in the mining league. Output in '55 was about eight times as great as in '45. The industry hopes next year to have at least 20 mines producing concentrates under Government contracts now awarded. In about three years, when uranium mining should be in full swing, Canada is expected to produce from $300 million to $350 million worth of concentrates annually. Thus, in a few years' time Canada may be producing annually close to $1 billion worth of petroleum, natural gas, and uranium—products which 10 years ago yielded almost nothing.

### Gas Pipeline Projects

Yet the older provinces and older industries are not being left behind. In Ontario, expansion is being pursued on a broad front. The steel industry plans to spend many millions of dollars in raising capacity. Fabricating industries, including steel-pipe and machinery-building, also are growing.

Quebec, which already has more than half of Canada's hydroelectric-generating capacity, is planning to develop more sites to keep up with expanding aluminum production. Not only is Aluminium of Canada expanding its plants and hydroelectric installations, but British Aluminum has decided to build a smelter at Baie Comeau on the north shore of the St. Lawrence which will eventually require about half a million horsepower. At least one American company, Jones & Laughlin, and several British and German steel companies are interested in developing iron ore deposits which apparently cover extensive areas of the Ungava (Quebec)—Laborador area.

As for the St. Lawrence Seaway, considerable speed-up in construction work is expected in 1956. Some 30 contracts, involving over $60 million, have already been awarded.

Work is also scheduled to begin on another billion-dollar project this year: The Trans-Canada Pipe Line to carry Alberta natural gas some 2,250 miles eastward to the consuming centers of Ontario and Quebec. After much debate, the Federal and Ontario governments have agreed to finance the so-called "uneconomic bridge," a section through the uninhabited wilderness of northern Ontario. No decision has yet been made in respect to the spur to Minnesota, without which the project is unlikely to be

**Table II—Canada: International Transactions with U. S. and Other Countries**

(In millions of dollars)

| | Current Accounts with the United States | | | | | Other Curr. Acc. | |
|---|---|---|---|---|---|---|---|
| Year | Exports to U. S. (adjusted) | Imports fr. U. S. (adjusted) | Trade Bal. | Other Payments | Debit Bal. with U. S. | Credit Balance with Other Countries | Net Credit or Debit |
| 1948 | 1,508 | 1,798 | — 289 | —104 | — 393 | + 844 | +451 |
| 1949 | 1,521 | 1,899 | — 378 | —233 | — 601 | + 778 | +177 |
| 1950 | 2,046 | 2,093 | — 47 | —353 | — 400 | + 66 | —334 |
| 1951 | 2,326 | 2,842 | — 516 | —435 | — 951 | + 434 | —517 |
| 1952 | 2,346 | 2,817 | — 471 | —378 | — 849 | +1,012 | +163 |
| 1953 | 2,458 | 3,046 | — 588 | —316 | — 904 | + 461 | —443 |
| 1954 | 2,355 | 2,800 | — 445 | —365 | — 810 | + 379 | —431 |
| 1955 | 2,602 | 3,263 | — 661 | —369 | —1,030 | + 375 | —655 |
| Est. 1956 | 2,800 | 3,800 | —1,000 | —350 | —1,350 | + 450 | —900 |

Source 1948-1955: Dominion Bureau of Stat. The Canada Balance of Int. Payments, 1954.

economically sound. Gas is expected to flow through the line by 1959. This, in turn, will permit gas and petroleum exploration in the prairie provinces, where gas wells brought to production are being capped because of a lack of consumers.

### Trade and Payments Deficits

Canada's growing trade and current-account deficits with the United States—more by-products of boom conditions and unprecedented prosperity—also are causing apprehension in some quarters. There has always been fear that large trade deficits with the United States make Canada vulnerable to economic and monetary policies across the border.

As will be seen from the accompanying table, Canada's transactions with the United States—other than those involving buying and selling of securities or investing capital—ended last year with a deficit of some $1.03 billion, the largest on record. Among the factors which contributed to the accumulation of this huge deficit, may be included:

(1) Payments of interest and dividends, which are naturally growing as Americans build up their investments. This "debt service" would be much larger if Americans were not reinvesting the bulk of their profits in Canada.

(2) Rising incomes in Canada which have made possible winter holidays in Florida and shopping trips to American centers. At the same time more Americans have been going abroad rather than to nearby Canada. The result: Canadian tourists now spend more money here than Americans spend in Canada.

(3) A fabulous expansion in imports from the States, as a result of the dynamic growth of the country. In 1955, the U. S. sold more goods to Canada than to all of Latin America; included were some $880 million worth of machinery—almost one-third of our capital goods exports. Canada also was our biggest market for coal, chemicals, petroleum products and motor vehicles.

It looks as if Canada's deficit with the United States this year will be considerably larger than one billion dollars. More Canadians have been to Florida and more are going on shopping tours. Most important, however, Canadian imports from this country have been rising fast. During the first three months of '56 they were up almost 30 percent, reaching an annual rate close to $4 billion against actual imports of $3.3 billion in 1955. Capital goods and consumer durables have apparently shown the biggest increase. Although our purchases from Canada are also rising, it seems that Canada will incur a deficit of close to $1 billion in her U. S. trade accounts alone. (Please see Table II.)

There is actually nothing disturbing about this "deterioration" in Canada's international payments with the United States, as long as Canadians are expanding their exports to other countries. This they are apparently doing. Aluminum, copper, nickel, uranium, lumber, and pulp and paper are enjoying demand in excess of current supplies. Second, it looks as if there will be no substantial letup in the flow of American money to Canada; these funds have more than counterbalanced Canada's deficits in the past. A number of the provinces already have floated new securities here and privately and publicly. Such entities as the Westcoast Transmission Co. and Quebec Hydroelectric have raised, or are expected to raise, substantial funds in this market. And there has been no slackening in the flow of direct investment funds.

***Table III—U. S. Investments in Canada***

**Where U. S. Control Has Been Growing:**

| | Total Invest. ($000,000) | Investments Owned in Canada ($000,000) | in U. S. | Capital Controlled in Canada (in percent) | in U. S. |
|---|---|---|---|---|---|
| **Petroleum** | | | | | |
| **Development** | 900 | 362 | 530 | 40 | 59 |
| **Refining** | 868 | 371 | 460 | 25 | 71 |
| **Transportation** | 194 | 74 | 119 | — | 100 |
| **Chemicals** | 572 | 220 | 262 | 28 | 54 |
| **Autos and other transp.** | 280 | 63 | 213 | 5 | 95 |
| **Electrical appliances** | 386 | 137 | 226 | 28 | 62 |
| **Rubber** | 130 | 33 | 97 | 8 | 92 |
| **Mining and smelting** | 1,624 | 672 | 811 | 45 | 53 |
| **Where Canada Keeps Control:** | | | | | |
| **Pulp and paper** | 1,285 | 615 | 539 | 45 | 42 |
| **Textiles** | 611 | 489 | 66 | 84 | 9 |
| **Iron and steel** | 355 | 296 | 86 | 83 | 13 |
| **Beverages** | 336 | 244 | 80 | 73 | 24 |
| **Agri. machinery** | 164 | 104 | 54 | 63 | 33 |

Thus in spite of heavy payments being made abroad, Canada does not seem to be heading for any balance-of-payments crisis, or the Canadian dollar for any sharp drop. Canada also has substantial reserves of gold and U. S. dollars to fall back on. But the situation bears watching, especially by those who have payments to make in Canada in the future.

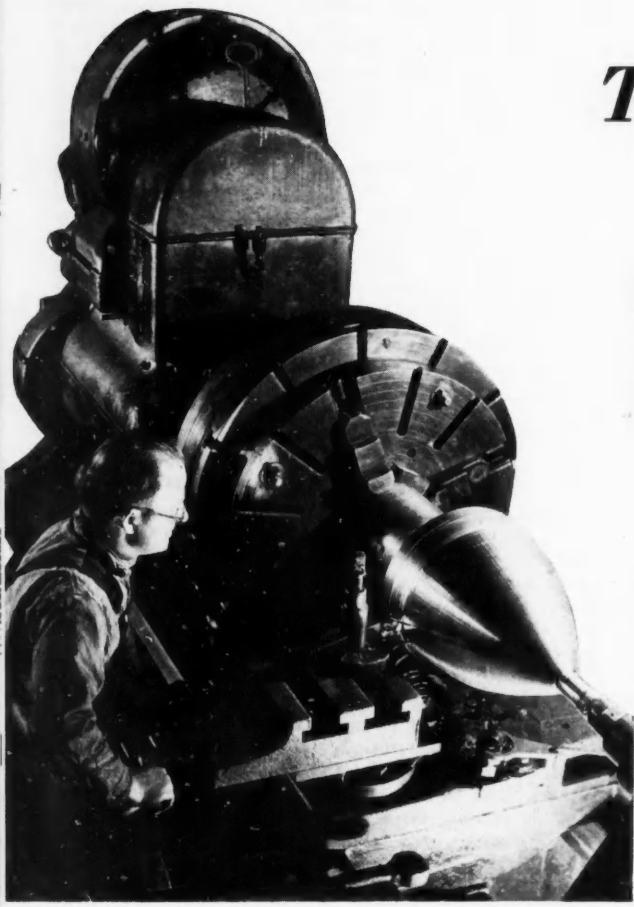
### U. S. Domination Discussed

Lastly, there seems to be still another kind of apprehension arising in some Canadian minds: That Canadians have become "hewers of wood and carriers of water" for the United States by letting U. S. interests, and big U. S. corporations in particular, control the most dynamic segments of the Canadian economy: Petroleum, mining, and manufacturing. Wrote the *Financial Post* of Toronto a few months ago:

Canada is paying for its lush prosperity by selling ownership of its productive enterprises to Americans, and by running down its own assets abroad . . . Twenty-five big firms accounted for more than half of total U. S. ownership of Canadian subsidiaries . . . It is already in the power of U. S. investors to accomplish a curtailment of—or, in the worst imaginable case, an end to—our expansion.

The issue of American capital "domination" is partly political. Foreign interests always make a convenient whipping boy, be it in the United States or in Canada. The Conservatives and the Socialists are in need of debatable issues for the national elections expected next year. Rank-and-file Canadians recognize that American capital has been beneficial by providing know-how and by enormously speeding up the economic development of the country. Without it, the closing of the gap between American and Canadian living standards would have been unimaginable.

The recently published report of the Dominion Bureau of Statistics on (*Please turn to page* 380)



# Tool Makers Face Divergent Prospects

By ROGER CARLESON

When, at the end of the first quarter of this year, the machine tool industry tallied its figures for the three months it showed shipments totaling $193.4 million. This was 21 per cent higher than shipments of $159.2 million during the corresponding period of 1955. Shipments in each of the first two months of the 1956 first quarter increased by approximately $10 million over the like months of a year ago, with March of this year putting on a spurt that carried shipments up to $74.1 million for a gain of 24 per cent over March, 1955 shipments of $59.9 million.

Giving additional brighter hues to the machine tool industry picture was the continued high level of machine tool ordering that followed the display of new and improved models at the National Machine Tool Show in Chicago last September. On the first quarter basis, new orders totaled $296.7 million, that being about 60 per cent greater than the $185.4 million put on the books in the initial three months of 1955.

### Optimism In The Industry

In view of the first quarter increase in shipments and order backlog over a year ago, it is not difficult to understand the optimism that took hold of most of the machine tool builders. Despite the moderate dip in order and shipments in April, this year, from the previous month's level, this optimism still prevails. Although April new business dropped about 12.4 per cent from the March figure, the volume of orders put on the books totaled $83.5 million which was 59 per cent greater than the $52.6 million in new business put on the books in April a year ago.

The influx of orders in April brought the backlog for the first four months of the current year to $380.1 million, up by 60 per cent from the $238 million registered in the like period of last year. Shipments for the four months to the end of April, 1956, totaling $285.1 million, however, were up only 25 per cent over the corresponding months of last year, according to calculations by the National Machine Tool Builders' Association. On this basis, it is indicated that shipments in the 1956 period have been at a slower rate but this fact does not lend itself to ready interpretation as an actual slow-down in production inasmuch as a goodly portion of the current order backlog probably involves machine tools requiring a longer lead-time than others.

Nevertheless, the backlog for the entire industry currently is equal to about 8.4 months as compared with a 4.5 month-backlog at the end of April, 1955. On the other hand, an explanation for the slower rate of shipments may be reflected in a recent statement attributed to one machine tool builder who is quoted as saying that an automotive industry customer had requested that delivery dates on orders originally scheduled for the fall be put back for the time being at least.

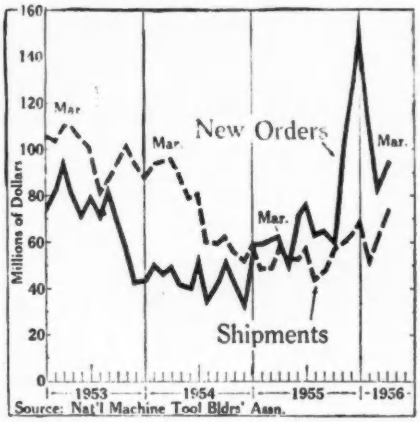
### Lead Time A Big Factor For Some Builders

Be this as it may, the comparatively high current backlog and the persistency of inquiries from prospective machine tool buyers is nourishing the industry's expectations that 1956 will show considerable improvement in earnings over the relatively poor 1955 results. It should be pointed out, in this connection, that there is no possible way to gauge the overall trend inasmuch as the lead-time for manufacturers of big machines which are referred to in the industry as "elephants" will be considerably longer than that required for the makers of com-

paratively smaller machines. Naturally, the time required between placing of an order and actual shipments will be reflected in operating results over periods of a month, a quarter, or even longer.

For this reason, an investor attempting to compare one machine builder with another, or in an effort to weigh the prospects of an individual company, should first fully inform himself of the type of machine tools these companies manufacture. For illustration: Where lead time for a more or less standard machine tool may average from six to eight months to produce, the lead time for an enormous spar miller will require up to 18 months to build, ready to be shipped. Thus it may be, in the case of some companies, that months will elapse between the reporting of new orders and shipments, the results of which are not entered in the records and net earnings on that particular order can be determined.

**MACHINE TOOL DEMAND**




### A Case In Point

Following the upturn in new orders in the latter half of 1955, enough time has elapsed for many companies to reflect the upturn in earnings in the 1956 first quarter. A case in point of particular interest is *The Bullard Company* which in 1955 introduced three completely redesigned lines of machine tools. This involved complex problems as well as extraordinary costs in manufacturing and marketing activities, as well as a slow down in manufacturing. As a result, 1955 shipments fell to $30.2 million from $50.1 million the year before, and Bullard finished the year with a net loss of $2.3 million, as compared with 1954 net income before Federal taxes of $9.9 million. After a credit arising from claim for prior years' taxes, the 1955 net loss amounted to a little more than $1 million, equal to a deficit of $1.41 a share for the stock. In 1954 net income, after Federal taxes on income and renegotiation, was $4.8 million, or earnings equal to $6.61 a share.

As a result of continuing improvement in producing its new lines, Bullard's shipments in the 1956 initial quarter were at the highest level since the second quarter of 1954, reaching $10.7 million as compared with $10.1 million in the final quarter and $5.8 million in the first quarter of 1955. Net income for the quarter ended last March 31, was $353,297, equal to 48 cents a share in contrast with 1955 first quarter deficit of $580,436 or a net loss of 80 cents a share.

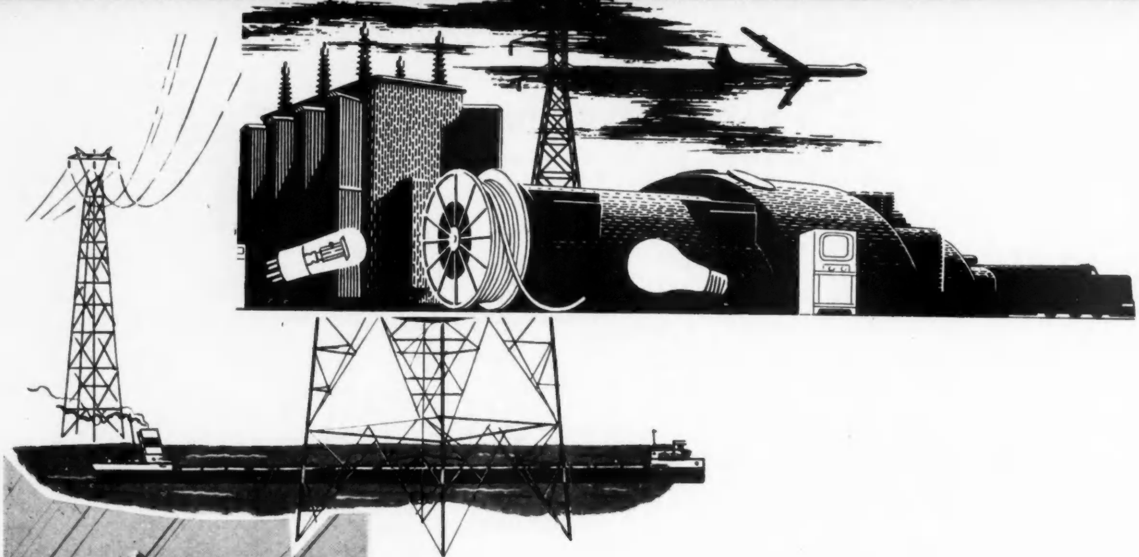
Bullard's order backlog at the end of the 1956 first quarter amounted to approximately $23 million, showing no diminution from the same relatively high level at the close of 1955, notwithstanding increased 1956 first quarter shipments. Bullard's outlook for the balance of the year is for a continuance of earnings improvement. After a lapse in dividend payments in 1955, the stock has been restored to a dividend basis with the payment of 20 cents a share on March 30, 1956. The shares are currently selling around 33 as compared with a low of 30¾ and a high of 36⅝ this year. On the assumption that there will be no increase in the indicated present dividend rate, the stock is selling to yield 2.4%, indicating the market is evaluating the issue on the basis of a further earnings improvement.

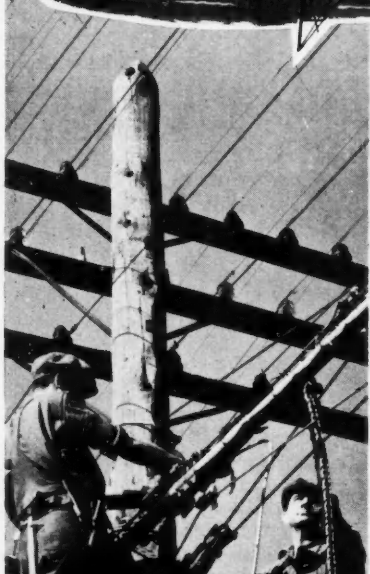
In its interim report for the six months to March 25, this year, *Black & Decker Manufacturing Co.*, one of the largest manufacturers of portable electric tool products for the retail market and for industry, showed net sales of $23.3 million, a gain of 16 per cent over the $20.1 million reported for the corresponding months of last year. Income before taxes amounted to $4.6 million and compares with $3.3 million a year ago, the increase being $1.2 million. Net income after taxes for the six months to last March totaled $2.2 million or $2.44 a share on the 907,184 shares outstanding at the end of the period, exceeding net income of $1.5 million or $1.85 a share on the 859,476 shares outstanding as of March 27, 1955. The number of (*Please turn to page* 387)

***Leading Machine Tool Companies***

| | 1st Quarter | | | | | | Full Year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Net Sales (Millions) | | Net Profit Margin | | Net Per Share | | Earned Per Share | | Div. Per Share | | Price Range | Recent | Div. |
| | 1955 | 1956 | 1955 | 1956 | 1955 | 1956 | 1954 | 1955 | 1954 | 1955 | 1955-56 | Price | Yield |
| Black & Decker | $20.1[1] | $23.3[1] | 7.9% | 9.5% | $1.85[1] | $2.44[1] | $3.33 | $4.10 | $1.00[3] | $1.00 | 45½—24¼ | 43 | 2.3% |
| Bullard | 5.8 | 10.7 | d9.9 | 3.2 | d.80 | .48 | 6.61 | d1.41 | 4.00[3] | .80[4] | 47⅞—27⅛ | 33 | 2.4 |
| Chicago Pneumatic Tool | N.A. | 19.1 | N.A. | 12.4 | 1.01 | 1.81 | 4.35 | 5.61 | 2.00 | [4]3.00[3] | 66 —35⅞ | 58 | 5.1 |
| Cincinnati Milling Machine | 20.1[2] | 32.4[2] | 4.2[2] | 6.7[2] | .48[2] | 1.24[2] | 5.37 | 2.47 | 2.00 | 1.60[4] | 49⅛—29¾ | 47 | 3.4 |
| Ex-Cello-O | 21.3 | 30.1 | 9.9 | 10.3 | 1.25 | 1.76 | 5.20 | 5.41 | 2.00[3] | 2.00 | 93½—39½ | 85 | 2.3 |
| Ingersoll Rand | N.A. | N.A. | N.A. | N.A. | 1.02 | 1.20 | 3.80 | 4.54 | 2.50 | 3.00 | 71 —50¼ | 62 | 4.8 |
| Monarch Machine Tool | 4.2 | 2.7 | 3.8 | 5.3 | .25 | .53 | 3.16 | .08 | 1.50 | 1.20 | 26¾—19¾ | 24 | 5.0 |
| National Acme | N.A. | N.A. | N.A. | N.A. | 1.37 | 2.00 | 7.37 | 6.41 | 4.00 | 4.00 | 78½—47 | 70 | 5.7 |
| Van Norman Industries | 4.2 | 8.2 | 2.5 | 3.2 | .29 | .38 | .87 | 1.09 | 1.00 | 1.00 | 19¼—13⅝ | 14 | 7.0 |

d—Deficit.
N.A.—Not available.
1—6 months ended Mar. 25.
2—12 weeks ended Mar. 24.
3—Plus stock.
4—Indicated 1956 rate.





# 1956 OUTLOOK *for* ELECTRIC UTILITIES

**By OWEN ELY**

The electric utility stocks as a group have made comparatively little progress in the past year, but some of the individual "rapid growth" stocks have registered good gains. Among these were the Texas and Florida "blue chip" utilities and a few others, such as American Gas & Electric. This is particularly true if present prices are compared with last year's lows, which occurred mainly in January of that year.

There are about 115 non-growth and moderate-growth electric utilities as compared with perhaps 15 or 20 rapid growth companies. In the four years 1951-4 the former had enjoyed an average advance of 50% or more, it is estimated. Thus Con Edison advanced from 30 in 1951 to 47 in 1954 (now 46), Detroit Edison from 22 to 35 (now 35), Philadelphia Electric from 26 to 40 (now 38), etc. Of course, these stocks reached slightly higher levels during 1955, but they recently retreated to around the 1954 highs.

Why have these non-growth or moderate-growth utilities, which comprise about 85% of the list, made such a relatively poor showing while other sections of the market were so buoyant? The answer seems to lie in the field of investor psychology. Even sophisticated institutional investors have doubtless been disturbed by the political clamor over public power "preference", power "give-aways", Hells Canyon, Dixon Yates, the ruckus over the St. Lawrence and Niagara projects in New York, etc. These political agitations raised the dread spectre of public power triumphing over private power, with utility earnings and dividends taking it on the chin.

### A Growth Industry

The actual picture has been quite the contrary. The private electric utilities continue to be an outstanding growth industry,

## *Comparative Earnings, Dividend Record and Comment on Important Electric Utilities*

| | Earnings Per Share 1953 | Earnings Per Share 1954 | Earnings Per Share 1955 | Dividends Per Share 1953 | Dividends Per Share 1954 | Dividends Per Share 1955 | Recent Price | Div. Yield | Price Range 1955-1956 |
|---|---|---|---|---|---|---|---|---|---|
| **American Gas & Electric** | $2.49 | $2.52 | $2.92 | $1.60[1] | $1.68 | $2.00[2] | 55 | 3.6% | 60⅛-40 |
| **Baltimore Gas & Electric** | 1.68 | 1.89 | 2.02 | 1.40 | 1.40 | 1.60[2] | 34 | 4.7 | 35⅞-30¼ |
| **Central & South West Corp.** | 1.72 | 2.00 | 2.04 | 1.04 | 1.20 | 1.40[2] | 37 | 3.7 | 39¾-29⅝ |
| **Cincinnati Gas & Electric** | 1.56 | 1.72 | 1.90 | 1.00 | 1.00[1] | 1.20[2] | 27 | 4.4 | 28⅞-23⅝ |
| **Cleveland Electric Illum.** | 2.04 | 1.93 | 2.49 | 1.30 | 1.30 | 1.60[2] | 38 | 4.2 | 44½-32½ |
| **Commonwealth Edison** | 2.38 | 2.70 | 2.62 | 1.80 | 1.80[3] | 2.00 | 40 | 5.2 | 47⅞-38⅛ |
| **Consolidated Edison** | 2.94 | 2.98 | 3.12 | 2.30 | 2.40 | 2.40 | 46 | 5.2 | 52¾-45⅛ |
| **Consumers Power Co.** | 3.16 | 3.10 | 3.09 | 2.15 | 2.20 | 2.20 | 49 | 4.4 | 53⅛-46⅛ |
| **Dayton Power & Light** | 2.78 | 2.88 | 3.20 | 2.00 | 2.00 | 2.20[2] | 46 | 4.7 | 43⅞-42½ |
| **Detroit Edison** | 1.92 | 2.05 | 2.43 | 1.50 | 1.60 | 1.80[2] | 34 | 5.2 | 37¾-33½ |
| **Duquesne Light Co.** | 2.22 | 2.26 | 2.34 | 1.55 | 1.66 | 1.80 | 36 | 5.0 | 38 -33 |
| **General Public Utilities** | 2.30 | 2.42 | 2.71 | 1.60 | 1.70 | 1.80[2] | 35 | 5.1 | 39¾-33 |
| **Illinois Power Co.** | 2.74 | 2.82 | 3.45 | 2.20 | 2.20 | 2.60[2] | 52 | 5.0 | 57 -47½ |
| **Middle South Utilities** | 2.06 | 2.13 | 2.21 | 1.37½ | 1.42½ | 1.50 | 29 | 5.1 | 35⅝-28⅛ |
| **New England Electric System** | 1.18 | 1.16 | 1.24 | .90 | .90 | 1.00[2] | 17 | 5.8 | 18 -15⅞ |
| **Niagara Mohawk Power** | 2.03 | 2.11 | 2.22 | 1.60 | 1.60 | 1.80[2] | 32 | 5.6 | 36¼-30 |
| **Northern States Power** | 1.10 | 1.07 | 1.16 | .70 | .80 | .90[2] | 17 | 5.2 | 18¼-16 |
| **Ohio Edison** | 3.15 | 3.02 | 3.55 | 2.20 | 2.20 | 2.48[2] | 53 | 4.6 | 54½-43⅞ |
| **Pacific Gas & Electric** | 2.82 | 2.88 | 3.32 | 2.05 | 2.20 | 2.40[2] | 50 | 4.8 | 53¾-44½ |
| **Philadelphia Electric** | 2.36 | 2.25 | 2.39 | 1.55 | 1.75 | 1.80 | 38 | 4.7 | 43 -37½ |
| **Public Service Elec. & Gas** | 1.80 | 1.96 | 2.26 | 1.60 | 1.60 | 1.80[2] | 33 | 5.4 | 35½-29⅛ |
| **Puget Sound Pow. & Lt.** | 1.23 | 1.37 | 1.51 | .85 | 1.06 | 1.24[2] | 26 | 4.7 | 27⅜-22½ |
| **Southern California Edison** | 2.68 | 3.06 | 3.32 | 2.00 | 2.00 | 2.40[2] | 49 | 4.8 | 54¾-44¾ |
| **Southern Co.** | 1.24 | 1.29 | 1.35 | .80 | .80 | 1.00[2] | 21 | 4.7 | 23 -17⅞ |
| **Union Electric Co.** | 1.36 | 1.65 | 1.70 | 1.20 | 1.20 | 1.40 | 27 | 5.1 | 31⅞-27 |
| **Utah Power & Light** | 2.61 | 2.88 | 3.10 | 1.80 | 2.00 | 2.20[2] | 48 | 4.5 | 52½-41¼ |
| **Virginia Electric & Power** | 1.78 | 2.20 | 2.54 | 1.40 | 1.40 | 1.60[2] | 44 | 3.6 | 45⅜-33 |
| **West Penn Electric** | 1.72 | 1.88 | 2.06 | 1.10 | 1.15 | 1.40[2] | 26 | 5.3 | 29¼-23¼ |
| **Wisconsin Electric Power** | 2.16 | 2.31 | 2.36 | 1.50 | 1.50 | 1.60 | 33 | 4.8 | 37¼-30 |

[1]—Plus stock. [2]—Indicated 1956 rate. [3]—Plus 1 sh. Nor. Ill. Gas for every 25 sh. held.

**American Gas & Electric:** This well-managed utility system has big expansion plans to serve huge new aluminum plants and other heavy industries in Ohio Valley. Leader in engineering research. (H)

**Baltimore Gas & Electric:** Conservative old-line utility with moderate earnings gains in recent years. Equity ratio above average. (H)

**Central & South West:** Southern "growth" utility system with fine record. Held by some 193 institutions, and included in fifty "most popular" issues. (H)

**Cincinnati G. & E.:** Serves very stable area and enjoys excellent public relations. While Ohio allows fair value rate base, return on plant cost of 7.4% seems high. ((H)

**Cleveland Elec. Illum.:** High equity ratio affords some protection against heavy industrial load. Share earnings gains slow but consistent until 1955, when they rose sharply due to higher rates. (H)

**Commonwealth Edison:** Large, conservative utility. Gas property "spun off", offsetting gains in electric earnings. Improvement anticipated this year because of large new generators. (H)

**Consolidated Edison of N. Y.:** Largest electric-gas utility with high equity ratio, stable earnings, good yield. (H)

**Consumers Power:** Conservative management. Share earnings gains rather slow considering big increase in revenues. Increase in cash dividend possible. (H)

**Dayton Power & Light:** Share earnings gained sharply last year. Dividend policy conservative, increase probable when rate problems settled. (H)

**Detroit Edison:** Stock of good calibre and yields about 5.3%, but has probably been affected marketwise by current decline in auto output. (H)

**Duquesne Light:** Earnings, in a gradual uptrend since 1948, showed good 1955-6 gains. Possibility of steel strike should be kept in mind. (H)

**General Public Utilities:** Consistent upward trend in earnings should continue this year, despite rate cut for Pennsylvania subsidiary. Spin-off of Manila Electric might be possibility. (H)

**Illinois Power:** Share earnings, after sharp downtrend in 1946-51 and side-ways move in 1952-4, have made good recovery due in part to rate increase. (H)

**Middle South Utilities:** Plagued by "Dixon-Yates" controversy and adverse rate decisions in Arkansas. Bad news now seems fully discounted. (H)

**New England Elec. System:** Share earnings in narrow range in past decade, with modest gain in 1955 to $1.24. Earnings low on rate base. Regulatory climate somewhat unfavorable. 6% yield. (N)

**Niagara Mohawk Power:** Suffered marketwise from political issues over St. Lawrence and Niagara Power Projects. Further delay with Niagara Project appears likely. Yield of 5½% high considering calibre. (H)

**Northern States Power:** Large midwest utility, in stable farm areas. Share earnings improved moderately in recent years, dividend payout increased. Good yield. (H)

**Ohio Edison:** Share earnings irregular in 1947-54, but improved sharply in 1955-6. Dividend increased in recent years, but payout still conservative. (H)

**Pacific Gas & Electric:** Second largest electric-gas utility, with huge sales gains, but share earnings showed little improvement over 1946 level until company obtained rate increase last year. (H)

**Philadelphia Electric:** Old-line utility with diversified economy. Delaware River section now reflects big industrial development. Share earnings disappointing 1951-54, but now showing modest gains. (H)

**Public Service E. & G.:** Big bus subsidiary, past unfavorable regulation, mediocre share earnings 1950-54, retarded market interest. Revenues now gaining sharply; earnings better. Yield 5.5%. (H)

**Puget Sound P. & L.:** Share earnings, irregular 1948-54, now showing good advance. Equity ratio very high. Long-term outlook favorable if growth plans mature. (H)

**Southern Calif. Edison:** Area growing rapidly, but share earnings have not made much net gain since 1950 despite rate increase in September 1954. Handicapped by droughts and higher fuel costs. (H)

**Southern Company:** Despite good revenue gains share earnings irregular 1948-54, but now with less equity financing are improving. Dividend increased to $1. (H)

**Union Electric:** Share earnings irregular in 1949-51 but in uptrend since. Will soon spin off stock of Hevi-duty Electric, inherited from North American Company. Good yield. (H)

**Utah Power & Light:** Rapid growth in recent years. Share earnings in uptrend since 1951. Further increase in dividend rate seems likely. (H)

**Virginia Elec. & Power:** Above-average growth, and share earnings and dividends in uptrend since 1952, benefitting by rate increase in 1954. Dividend rate raised to $1.80, but still conservative. (H)

**West Penn Electric:** Fine record of increasing share earnings, attractive yield. Modestly priced relation current earnings. (H)

**Wisconsin Electric:** Conservative record, well-balanced stable area. Trend of share earnings somewhat disappointing until 1955-6 when there was substantial gain. (H)

**RATING—(H)—Hold. (N)—Neutral.**

## *1955 Key Statistics and Ratios of*

| | American Gas & Electric | Baltimore Gas & Electric | Central & South West Corp. | Cincinnati Gas & Electric | Cleveland Electric Illum. | Commonwealth Edison | Consolidated Edison |
|---|---|---|---|---|---|---|---|
| **PLANT VALUE (MILLIONS) GROSS** | $1,152 | $393 | $524 | $308 | $413 | $1,449 | $1,811 |
| **Depreciation Reserve** | 241 | 77 | 77 | 69 | 105 | 352 | 361 |
| **Net Plant Account** | 911 | 316 | 447 | 239 | 308 | 1,097 | 1,450 |
| **CAPITAL RATIOS (%)** | | | | | | | |
| **Funded Debt to Total Capitalization** | 56 | 51 | 50 | 49 | 45 | 52 | 47 |
| **Preferred Stock to Total Capitalization** | 10 | 8 | 14 | 12 | 8 | ....... | 11 |
| **Common Stock & Surplus to Total Capitalization** | 34 | 41 | 36 | 39 | 47 | 48 | 42 |
| **ANALYSIS OF REVENUES — ELECTRICITY %** | 100 | 71 | 100 | 63 | 96 | 100 | 79 |
| **Gas %** | ....... | 27 | ....... | 37 | ....... | ....... | 15 |
| **Miscellaneous %** | ....... | 2 | ....... | ....... | 4 | ....... | 6 |
| **INCOME ACCOUNT (Consolidated)** | | | | | | | |
| **Gross Revenues (Millions)** | $ 258 | $118 | $114 | $108 | $104 | $ 336 | $ 493 |
| **Operating Expense (includ. purch. pow. & gas)** | 89 | 66[3] | 37 | 57 | 39 | 142 | 208 |
| **Maintenance** | 21 | ....... | 8 | 6 | 6 | 20 | 48 |
| **Depreciation** | 30 | 9 | 12 | 7 | 11 | 35 | 43 |
| **Taxes — Federal Income (includ. Deferred Taxes)** | 39 | 12 | 19 | 14 | 18 | 41 | 44 |
| **Taxes — Other** | 20 | 10 | 8 | 6 | 8 | 38 | 77 |
| **Net Operating Income (after all taxes)** | 58 | 17 | 29 | 17 | 21 | 59 | 72 |
| **Gross Income** | 59 | 18 | 29 | 18 | 21 | 60 | 73 |
| **Fixed Charges, etc.[1]** | 17 | 4 | 9 | 3 | 4 | 14 | 20 |
| **Net Income** | 42 | 12 | 19 | 14 | 18 | 46 | 52 |
| **EXPENSES RATIOS (%)** | | | | | | | |
| **Ratio Depreciation to Gross Revenues** | 12 | 7 | 10 | 7 | 11 | 10 | 9 |
| **Maintenance to Gross Revenues** | 8 | ....... | 7 | 6 | 5 | 6 | 10 |
| **Combined Deprec. & Maintenance to Gross Rev.** | 20 | ....... | 17 | 13 | 16 | 16 | 19 |
| **Operating Ratio (including taxes)** | 77 | 85 | 74 | 83 | 80 | 82 | 85 |
| **EARNINGS RATIO** | | | | | | | |
| **No. Times Fixed Charges Earned after taxes[1]** | 3.4 | 4.4 | 3.1 | 5.3 | 5.0 | 4.3 | 3.6 |
| **ANALYSIS OF ELECTRIC REV. (% of Total)** | | | | | | | |
| **Residential & Rural** | 17 | 34 | 37 | 35 | 33 | 34 | 34 |
| **Commercial** | 7 | 31 | 26 | 25 | 59[2] | 29 | 54[2] |
| **Industrial** | 55 | 34 | 28 | 29 | ....... | 26 | ....... |
| **Other** | 21 | 1 | 9 | 11 | 8 | 11 | 12 |
| **COMMON STOCK — Recent Price** | $ 55 | $ 34 | $ 37 | $ 27 | $ 38 | $ 40 | $ 46 |
| **Indicated Dividend Rate** | $ 2.00 | $ 1.60 | $ 1.40 | $ 1.20 | $ 1.60 | $ 2.00 | $ 2.40 |
| **Dividend Yield** | 3.6% | 4.7% | 3.7% | 4.4% | 4.2% | 5.2% | 5.2% |
| **Earned Per Share on Common Stock in 1955** | $ 2.92 | $ 2.02 | $ 2.04 | $ 1.90 | $ 2.49 | $ 2.62 | $ 3.12 |
| **Price — Earnings Ratio** | 18.8 | 16.8 | 18.1 | 14.2 | 15.2 | 15.2 | 14.7 |
| **Dividend Pay-out %** | 68% | 79% | 68% | 63% | 64% | 76% | 77% |

1—Includes interest on construction credit. 2—Combined commercial and industrial. 3—Includes maintenance.

benefiting by continued research developing new methods of generating and transmitting electricity and new devices for using it. The farmers are constantly increasing their use of electric appliances to mechanically milk cows, raise chickens, increase irrigation, etc. In the household, new electrical gadgets are constantly being introduced or old ones improved; incinerators and driers are now being introduced, and color TV, which will use more electricity than black and white, will soon be on a mass production basis. Air conditioning equipment has grown rapidly in recent years, so much so that southern utilities now find it almost a headache to supply the summer demand for residential current. The heat pump, which provides a better-balanced load — for both heating in winter and cooling in summer — is being rapidly perfected and is now being installed in increasingly larger numbers in the south. It seems only a matter of time until it will be adapted for use in northern climates without the use of cumbersome auxiliary heat. York Corporation has recently announced a new model which seems promising.

In 1955 the utilities sold 15% more electricity than in the previous year — a better-than-normal rate of gain, the 1954 gain having been reduced by the business let-down early in that year. Residential sales in 1955 increased 11%, commercial 8%, and industrial 22%. However, due to lower average rates resulting from promotional schedules, the gain in revenues was only 10%, while earnings available for common stock were up about 11%. Of course the improvement in average share earnings (no data on this are compiled) was somewhat less, since a number of utilities issued additional shares during the year, but it appears likely that the gain was in the neighborhood of 6.8%. Dividend

## *Important Utility Companies*

| Consumers Power | Detroit Edison | Middle South Util. | Niagara Mohawk Power | Northern States Power | Ohio Edison | Pacific Gas & Electric | Phila. Electric | Public Service Elec. & Gas | Puget Sound Power & Light | Southern Calif. Edison | Southern Company | Union Electric Co. | West Penn Electric |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $678 | $850 | $642 | $895 | $489 | $510 | $2,165 | $868 | $947 | $120 | $915 | $973 | $549 | $506 |
| 109 | 152 | 109 | 227 | 92 | 94 | 412 | 173 | 210 | 18 | 154 | 166 | 124 | 117 |
| 569 | 698 | 533 | 668 | 397 | 416 | 1,753 | 695 | 737 | 102 | 761 | 807 | 425 | 389 |
| 44 | 58 | 55 | 50 | 45 | 45 | 46 | 48 | 53 | 44 | 49 | 54 | 49 | 54 |
| 14 | ........ | 9 | 15 | 21 | 16 | 20 | 12 | 9 | ........ | 14 | 13 | 15 | 16 |
| 42 | 42 | 36 | 35 | 34 | 39 | 34 | 40 | 38 | 56 | 37 | 33 | 36 | 30 |
| 68 | 98 | 84 | 81 | 86 | 98 | 65 | 84 | 70 | 100 | 100 | 99 | 94 | 98 |
| 31 | ........ | 10 | 19 | 12 | ........ | 34 | 14 | 30 | ........ | ........ | ........ | 3 | ........ |
| 1 | 2 | 6 | ........ | 2 | 2 | 1 | 2 | ........ | ........ | ........ | 1 | 3 | 2 |
| $189 | $219 | $153 | $227 | $126 | $123 | $ 443 | $210 | $273 | $ 23 | $176 | $209 | $119 | $126 |
| 91 | 101 | 60 | 101 | 54 | 40 | 160 | 85 | 122 | 8 | 62 | 77 | 43 | 46 |
| 10 | 18 | 10 | 18 | 7 | 8 | 13 | 17 | 26 | 2 | 11 | 12 | 10 | 9 |
| 17 | 18 | 17 | 18 | 11 | 13 | 43 | 23 | 20 | 1 | 18 | 28 | 14 | 13 |
| 28 | 22 | 20 | 17 | 17 | 24 | 64 | 34 | 28 | 3 | 25 | 30 | 15 | 18 |
| 8 | 18 | 15 | 27 | 14 | 9 | 50 | 8 | 34 | 2 | 21 | 14 | 10 | 8 |
| 34 | 37 | 30 | 39 | 23 | 28 | 93 | 41 | 42 | 6 | 38 | 46 | 25 | 28 |
| 36 | 38 | 30 | 39 | 23 | 28 | 94 | 41 | 43 | 6 | 39 | 47 | 26 | 28 |
| 7 | 11 | 10 | 10 | 5 | 5 | 22 | 8 | 11 | 1 | 10 | 19 | 6 | 10 |
| 29 | 26 | 19 | 29 | 18 | 23 | 71 | 33 | 30 | 5 | 29 | 26 | 19 | 17 |
| 9 | 8 | 11 | 8 | 9 | 10 | 10 | 10 | 7 | 6 | 10 | 13 | 11 | 10 |
| 5 | 8 | 7 | 8 | 5 | 7 | 3 | 5 | 10 | 8 | 6 | 6 | 9 | 8 |
| 14 | 16 | 18 | 16 | 14 | 17 | 13 | 15 | 17 | 14 | 16 | 19 | 20 | 18 |
| 82 | 83 | 80 | 82 | 81 | 77 | 79 | 80 | 84 | 73 | 78 | 78 | 78 | 78 |
| 5.3 | 3.4 | 3.0 | 3.9 | 5.1 | 5.8 | 4.3 | 5.2 | 3.7 | 4.7 | 3.8 | 2.4 | 4.1 | 2.7 |
| 41 | 38 | 36 | 31 | 45 | 37 | 46 | 33 | 35 | 55 | 42 | 35 | 34 | 38 |
| 21 | 27 | 25 | 17 | 49[2] | 22 | 44[2] | 22 | 30 | 26 | 20 | 26 | 21 | 16 |
| 34 | 31 | 28 | 39 | ........ | 33 | ........ | 35 | 32 | 11 | 27 | 30 | 34 | 41 |
| 4 | 4 | 11 | 13 | 6 | 8 | 10 | 10 | 3 | 8 | 11 | 9 | 11 | 5 |
| $ 49 | $ 34 | $ 29 | $ 32 | $ 17 | $ 53 | $ 50 | $ 38 | $ 33 | $ 26 | $ 49 | $ 21 | $ 27 | $ 26 |
| $ 2.20 | $ 1.80 | $ 1.50 | $ 1.80 | $ .90 | $ 2.48 | $ 2.40 | $ 1.80 | $ 1.80 | $ 1.24 | $ 2.40 | $ 1.00 | $ 1.40 | $ 1.40 |
| 4.4% | 5.2% | 5.1% | 5.6% | 5.2% | 4.6% | 4.8% | 4.7% | 5.4% | 4.7% | 4.8% | 4.7% | 5.1% | 5.3% |
| $ 3.09 | $ 2.43 | $ 2.21 | $ 2.22 | $ 1.16 | $ 3.55 | $ 3.32 | $ 2.39 | $ 2.26 | $ 1.51 | $ 3.32 | $ 1.35 | $ 1.70 | $ 2.06 |
| 15.8 | 14.0 | 13.1 | 14.4 | 14.7 | 14.9 | 15.0 | 15.9 | 14.6 | 17.2 | 14.7 | 15.5 | 15.8 | 12.6 |
| 71% | 74% | 68% | 81% | 77% | 70% | 72% | 75% | 79% | 82% | 72% | 74% | 82% | 68% |

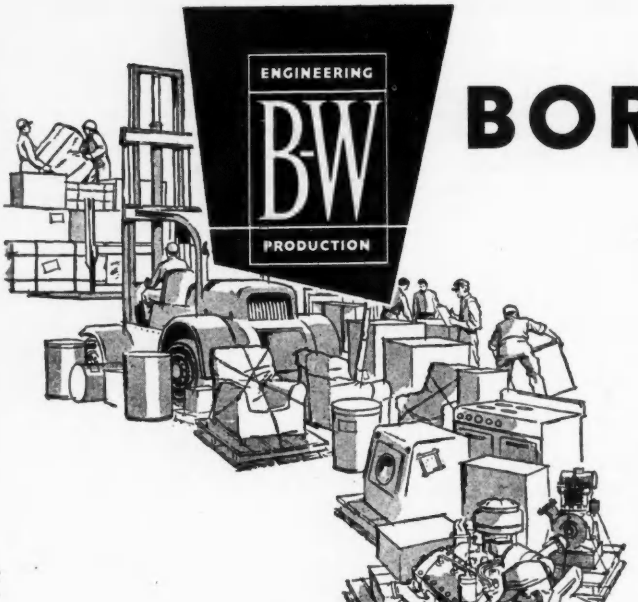
payments per share in the past year improved about 6%.

Preliminary earnings results for the month of March 1956 are now available. Revenues again showed a gain of 10%, and net income was nearly 12% over the previous year. The great majority of electric utility executives have forecast improved share earnings for the calendar year 1956, and results to date bear out this optimism.

In addition to the influence of election-year political bogies, the utility stocks have had to contend with rising money rates, an important short term factor. This influence was particularly noticeable in the month of April when utility stocks declined steadily while rails were strong and industrials irregular. With the easing of tension in the bond market, however, the utility group has recently managed to stay a little higher than the lows of late April despite the sharp drop in industrials and rails.

Back in the first half of 1953 there was a similar money market episode. The new administration wanted to check inflationary trends and introduce a "harder" money policy with the result that prices of bonds and preferred stocks dropped rather sharply. At that time also utility common stocks retreated, although they soon made up the lost ground when the bond market brightened.

As noted above, the general outlook for the industry remains excellent. Residential sales increase annually at a normal average of about 7% compounded, while industrial sales show a more irregular upward trend, being affected by the business cycle; commercial sales remain in between the two. In addition to growth, revenues and earnings have several "built-in"safety factors (*Please turn to page* 372)




# BORG-WARNER:

## *A Study in Growth and Diversity*

by GEORGE L. MERTON

Borg-Warner Corp. is an example of dynamic enterprise and intelligent management which is coming to the fore in a big way. Indeed, so varied are the stakes of this fast-moving company that its activities do not permit an epigrammatic description.

B-W could, with justification, employ the technique of storekeepers whose signs state: "If you do not see what you want, ask for it." But the Chicago-based company has been thoughtful enough to publish an eight-page catalogue to call attention to its thousands of products. While this progress enterprise doesn't make everything, the products of B-W range from A to W—acutating cylinders to watt meters.

### Pains and Problems

Growth brings pains and diversity creates problems. So while the actuating cylinders (they're for aircraft use) and the watt meters (for electronics) are doing all right, numerous items in between have become sticky.

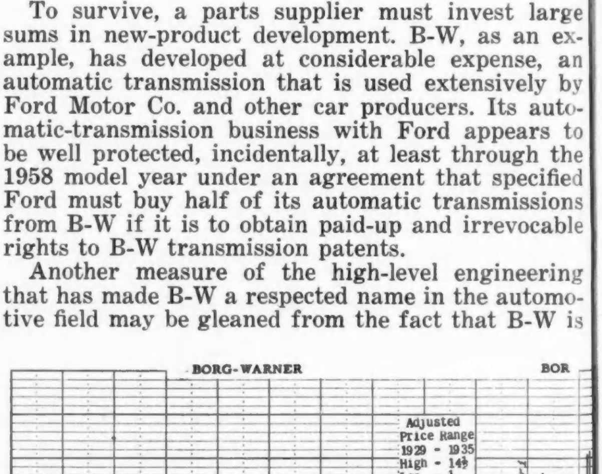
This is understandable since more than 43% of B-W's total sales (based on 1955 figures) were to the automotive industry. With that industry sustaining a sharp setback this year after the abnormal upsurge of 1955, these are not times calculated to boost the sale of such items as clutch plates, brakes, free-wheeling units and propeller shafts. And cutbacks are the order of the day for household appliances, which rank behind automotive as a source of B-W revenues.

Record sales and income registered by B-W last year were due, in substantial measure, to the increase in its automotive-supply business, which soared on demands of the motor-car industry. But B-W never has had any illusions about the stability of the auto-supply business. To prosper (indeed, to survive) a parts producer must have a first-rate program of research and development plus considerable diversification. B-W has these things with something to spare.

### Spending for New Products

To survive, a parts supplier must invest large sums in new-product development. B-W, as an example, has developed at considerable expense, an automatic transmission that is used extensively by Ford Motor Co. and other car producers. Its automatic-transmission business with Ford appears to be well protected, incidentally, at least through the 1958 model year under an agreement that specified Ford must buy half of its automatic transmissions from B-W if it is to obtain paid-up and irrevocable rights to B-W transmission patents.

Another measure of the high-level engineering that has made B-W a respected name in the automotive field may be gleaned from the fact that B-W is



expected to make the automatic transmission for the Nash Rambler, a product of American Motors Corp. Up to now, Nash has used the Hydra-Matic of General Motors.

Costly research, of course, does not always pay off for a parts-maker, for the motor-car manufacturers themselves may develop superior items in their own laboratories.

It should occasion no surprise, therefore, that all producers of auto parts are casting about for diversification. In the forefront of this trend is B-W, which has trimmed its proportion of sales to the automotive people to 43.5% of the over-all total from 60% in 1950. The 43.5% figure cited is for 1955 and there is no question that the 1956 total will show yet another decline for the auto-parts segment—not only because automotive has sustained a setback, but due also to the massive program of diversification undertaken by B-W. The company is counting on auto parts for only 35% to 36% of its sales this year. It recognizes that the parts business is a shrinking industry marked by narrowing profit margins, the outgrowth of a drive by the car-makers to achieve an ever higher degree of integration.

**An Exclusive Statement for The Magazine of Wall Street:**

**THE NEED FOR MANAGEMENT IN DEPTH**

by Roy C. Ingersoll,
Chairman of the Board, Borg-Warner Corp.

*One of the most urgent and important jobs of American business and industry today is to build "management in depth."*

*I know this necessity exists in our own company, and I believe that the necessity exists no less in American business and industry as a whole.*

*In simple terms it means that a company should have a reservoir of capable sub-executives who are trained and ready to step into the shoes of their superiors in every area that affects sales, earnings, and services to our customers and the public.*

*It is Borg-Warner's basic philosophy that companies which build strong, virile, hard-hitting, and cooperative executive organizations possess a tremendous asset which does not appear on the balance sheet but is nevertheless very real.*

*Two different companies may be able to show you almost identical balance sheets today. But within a few years one company, which has built management in depth while the other has failed to do so, may be double the size of its competitor. Or the competitor may have passed out of the picture completely.*

*This is why bankers, security analysts, union economists, investment houses and even individual stock buyers should look, if possible, beyond the balance sheet when they seek to evaluate the future of a company.*

*The development of a trained management, sufficiently flexible to meet changing conditions in the future, is an obligation which every company owes to its stockholders, its employes and its customers alike.*

### Growth Through Diversity

B-W undertakes expansion in new fields only when it finds, after thorough study, that its managerial, research, engineering and production "know-how" can make a vital contribution to the success and growth of these enterprises. The program entails internal expansion and external acquisitions.

An important milestone was attained last September with the acquisition of Byron Jackson Co., maker of oil well tools, centrifugal pumps, electronic instruments and rubber products for varied industries. In the Byron Jackson division, B-W has gained the added strength of the 87-year-old company's several manufacturing plants and entered into new fields of industrial activity. The takeover was consummated through exchange of four shares of B-W stock for each five shares of Byron Jackson.

### Picking Up Small Ones, Too

Two smaller but nonetheless flourishing companies were subsequently acquired. In November, Primor Products, Inc. of Adrian, Mich., was taken over. Primor produces standard and custom-made water-cooled air-conditioning systems which are used with Ingersoll Conditioned Air furnaces, a product of one of the Kalamazoo, Mich., plants of B-W.

In February of this year, Morse Chain Co., a subsidiary of B-W, announced acquisition of Eberhart-Denver Co. of Denver and its affiliate, Spreco, Inc. of Chicago. Eberhart is one of the country's leading makers of speed reducers. Its products will materially strengthen the Morse line of chains and other power transmission equipment.

### Daddy of All B-W Mergers

Far and away, the most vital of all B-W mergers is the one now in the works. It would make York Corp. a part of the B-W organization.

York probably is the oldest (Carrier Corp. will dispute that) refrigeration and air-conditioning company extant. For a time, it led the field, but the aggressive Carrier management wrested that leadership from York, although within the trade York engineering is regarded as unexcelled. York has the distinction of being one of the few across-the-board manufacturers of air-conditioning equipment, which means that York makes everying in the line from room coolers (for pace-setting Philco, too) to the kind of apparatus that provides climatic control for hotels, skyscrapers and sprawling Government buildings in Washington. York also has a considerable stake in military and industrial work.

### Significance Of the Merger

On April 4, the boards of B-W and York voted approval of an affiliation of the companies and await only the action of York stockholders at the special meeting on June 25. The consolidation would be effected under a plan of reorganization whereby B-W would acquire all assets and assume all liabilities of York and each holder of York common stock would get one-half share of B-W for each share of York. In addition, the York holder would receive $2 in cash for each share of York common. If York shareholders vote approval of this plan, the consolidation would become effective on July 1.

The significance of this merger is to be found in the drive at B-W to expand its hold in the appliance field. It is noteworthy that although B-W sales to the automotive industry in 1955 (a year when all auto output figures toppled) were considerably larger than those of 1954, automotive sales in 1955 represented a smaller percentage of total volume, fall-

### *Comparative Balance Sheet Items*

| ASSETS | December 31 1946 (000 omitted) | 1955 | Change |
|---|---|---|---|
| Cash & Marketable Securities | $ 29,562 | $ 85,910 | +$ 56,348 |
| Receivables, Net | 16,637 | 68,057 | + 51,420 |
| Inventories | 36,695 | 90,891 | + 54,196 |
| TOTAL CURRENT ASSETS | 82,894 | 244,858 | + 161,964 |
| Net Property | 25,531 | 81,441 | + 55,910 |
| Intangibles | 460 | 1,228 | + 768 |
| Investments | 265 | 10,541 | + 10,276 |
| Other Assets | 4,835 | 5,812 | + 977 |
| TOTAL ASSETS | $113,985 | $343,880 | +$229,895 |
| LIABILITIES | | | |
| Accounts Payable | $ 11,740 | $ 27,343 | +$ 15,603 |
| Accruals | 1,757 | 19,858 | + 18,101 |
| Inc. Tax & Renegot. | 10,094 | 51,964 | + 41,870 |
| TOTAL CURRENT LIABILITIES | 23,591 | 99,165 | + 75,574 |
| Other Liabilities | 026 | | — 026 |
| Reserves | 5,185 | 3,756 | — 1,429 |
| Long Term Debt | | 5,675 | + 5,675 |
| Preferred Stock | 20,000 | 16,320 | — 3,680 |
| Common Stock | 12,310 | 40,695 | + 28,385 |
| Surplus | 52,873 | 178,269 | + 125,396 |
| TOTAL LIABILITIES | $113,985 | $343,880 | +$229,895 |
| WORKING CAPITAL | $ 59,303 | $145,693 | +$ 86,390 |
| CURRENT RATIO | 3.5 | 2.4 | — 1.1 |

ing to 43.5% from 45.5%. Meanwhile, the appliance segment rose to 26.1% in 1955 from 22.8% in 1954.

B-W long ago established an enviable reputation for its Norge division, which turns out home appliances. The home-appliance sales of that division last year approximated $129 million, the highest total in Norge history, more than 73% ahead of 1954 and triple the volume of 1953.

The York acquisition represents a move in the direction of rounding out the line. Numerous companies with one or even a handful of appliances have come to grief in the appliance field. Such illustrious corporate names as General Mills, International Harvester and General Dynamics come to mind immediately. Radio Corp. of America, which has done an outstanding job of rounding out the appliance line, has, on the other hand, fared extremely well.

The York line of products will put Norge in the top ranks of appliance producers. Norge, of course, produces refrigerators, washing machines, dryers and ranges. The dealer setup now handling these Norge products offers a ready-made outlet for the air-conditioning products of York.

The dealer organization is quite extensive, as it needs to be in this competitive field. Consumer financing for the purchase of Norge products now is available in 18 states through the services of B-W Acceptance Corp. The expansion of B-W Acceptance, plus a continuous stream of promotional activities, were primarily responsible for adding 6,500 stores in 1955 to the roster of Norge retail outlets.

#### A $100 Million Potential

In the growing air-conditioning field, York could easily add $100 million per year to the B-W volume, which reached a record $552,192,000 last year. York sales for its last fiscal year (ended September 30) totaled $82,714,000, down from the preceding year, when an all-time high of $93,273,000 was established.

Despite the ups and down of the air-conditioning business, which can be hurt badly by mild weather and stimulated sharply by a heat wave, York has managed to operate profitably in each of the post-war years. A measure of the hold that air-conditioning has taken may be gleaned from the fact that York sales in 1946 amounted to a little more than $32 million. That figure, of course, was roughly one-third of the business done by York in fiscal 1954.

#### Crane, Hoist and Monorail

While the appliance business bids fair to vie with automotive for leadership in bringing dollars into the B-W coffers, the company has other fish to fry. In the middle of last month, B-W purchased Industrial Crane & Hoist Corp. of Chicago through issuance of additional common shares. Amount of stock involved in the transaction was not disclosed.

Industrial Crane produces overhead cranes, hoists and trolleys, monorail (*Please turn to page* 375)

### *Long Term Operating and Earnings Record*

| | Net Sales (Millions) | Operating Income (Millions) | Operating Margin | Income Taxes (Millions) | Net Income (Millions) | Net Profit Margin | Net Per Share | Div. Per Share | Percent Earned on Invested Capital | Price Range High Low |
|---|---|---|---|---|---|---|---|---|---|---|
| 1955 | $ 552.1 | $ 82.4 | 14.9% | $ 43.7 | $ 41.0 | 7.4% | $ 5.17 | $ 2.40[1] | 17.1% | [2]50⅞-34¾ |
| 1954 | 380.3 | 51.2 | 13.4 | 24.4 | 24.4 | 6.4 | 3.27 | 1.66 | 12.3 | 39 -35¼ |
| 1953 | 407.3 | 59.3 | 14.5 | 33.6 | 23.9 | 5.8 | 3.25 | 1.66 | 13.0 | 28⅝-21⅜ |
| 1952 | 353.9 | 61.7 | 17.4 | 37.1 | 22.9 | 6.4 | 3.11 | 1.66 | 13.2 | 27⅜-20½ |
| 1951 | 369.1 | 64.4 | 17.4 | 37.0 | 21.9 | 5.7 | 2.95 | 1.66 | 13.9 | 23⅞-19½ |
| 1950 | 330.9 | 68.0 | 20.5 | 31.5 | 29.0 | 8.7 | 4.05 | 2.33 | 20.2 | 24⅜-18⅝ |
| 1949 | 252.3 | 4[illegible].8 | 16.5 | 13.6 | 22.0 | 8.7 | 3.05 | 1.83 | 16.9 | 19¾-14⅛ |
| 1948 | 309.2 | 56.0 | 18.1 | 21.4 | 26.2 | 8.4 | 4.[illegible]4 | 1.50 | 23.2 | 22 -14⅛ |
| 1947 | 258.3 | 45.2 | 17.5 | 17.5 | 20.0 | 7.7 | 3.40 | .68 | 20.8 | 18⅝-12½ |
| 1946 | 138.8 | 15.3 | 11.0 | 5.7 | 9.0 | 6.5 | 1.22 | .53 | 10.6 | 20½-12 |
| 10 Year Average 1946-1955 | $ 335.2 | $ 54.5 | 16.1% | $ 26.5 | $ 24.0 | 7.1% | $ 3.36 | $ 1.59 | 16.1% | 50⅞-12 |

1—Indicated 1956 rate. 2—To May 22, 1956.

THE EDITORS'

# INVESTMENT CLINIC

*Case No. 23*

## Amortization and Depreciation

Many subscribers have asked us to comment on the subjects of amortization and depreciation; also their impact on the net profits situation of companies. From the tenor of the inquiries, it is obvious that they, generally, are interested in the import of such terms as "fast tax writeoff" and "cash flow."

Under Federal law, adopted to strengthen this nation's defense potential, innumerable industries have been allowed to use accelerated amortization, a device calculated to encourage the building of new plants and facilities. Companies that qualify under Federal law are permitted to amortize a plant or facilities in five years instead of customarily longer periods. Under this accounting method, companies which have availed themselves of the allowance now are accruing depreciation for tax purposes on such a basis. The resulting cash accruals, commonly referred to as the "cash flow," accrue to the company, to be used for expansion and other corporate purposes.

It is a fact that the device of accelerated amortization of privately-owned defense facilities (they may be utility generating stations, freight cars or paperboard plants) has been resorted to in the three great national emergencies of the current century. Manufacturers (and investors) have a special interest in the subject of tax allowances for capital consumption, of which special amortization is a vital aspect.

It is well to emphasize that accelerated amortization does not increase the total tax-free allowance for capital consumption. Its amount remains, in all cases, the cost of the plant or the facility. What the acceleration does is to make the allowance (and thus the tax deduction) available earlier in the life of the plant or the facility, spreading over a five-year span what would otherwise extend over a longer period. Once the allowance is exhausted in this way, there is, of course, no more to be taken in later years. The essence of the device is a shift in timing only.

Investors, of course, rely greatly on the net profits figure in judging a stock's value. It is well, however, to consider other items in the income account and among the most important of these is the sum charged for depreciation. In 1955, as an example, it was greater than the after-tax net profits in quite a few instances.

The amount of the depreciation allowance is obviously going to have a large impact on reported earnings. In recent years, such charges have turned up a considerable variance, from company to company. This has been, in great part, the result of the use of accelerated amortization and the liberalization of the Federal laws covering depreciation.

As a consequence, reported earnings may give a distorted picture of actual results. In the case of accelerated amortization, many companies have availed themselves of Government-approved expansion programs and thus reduced their tax liability during the five-year period. This reduces their reported earnings, although actual earnings capacity may be increased.

An exception is the railroad industry, where the Interstate Commerce Commission has ordered the railroads in setting forth their corporate statements to deduct only normal depreciation and the actual tax paid. This tax, by the way, is below normal because railroads claim accelerated amortization expense for tax purposes. Thus, railroad earnings are usually overstated in comparison with most corporate reports by industry.

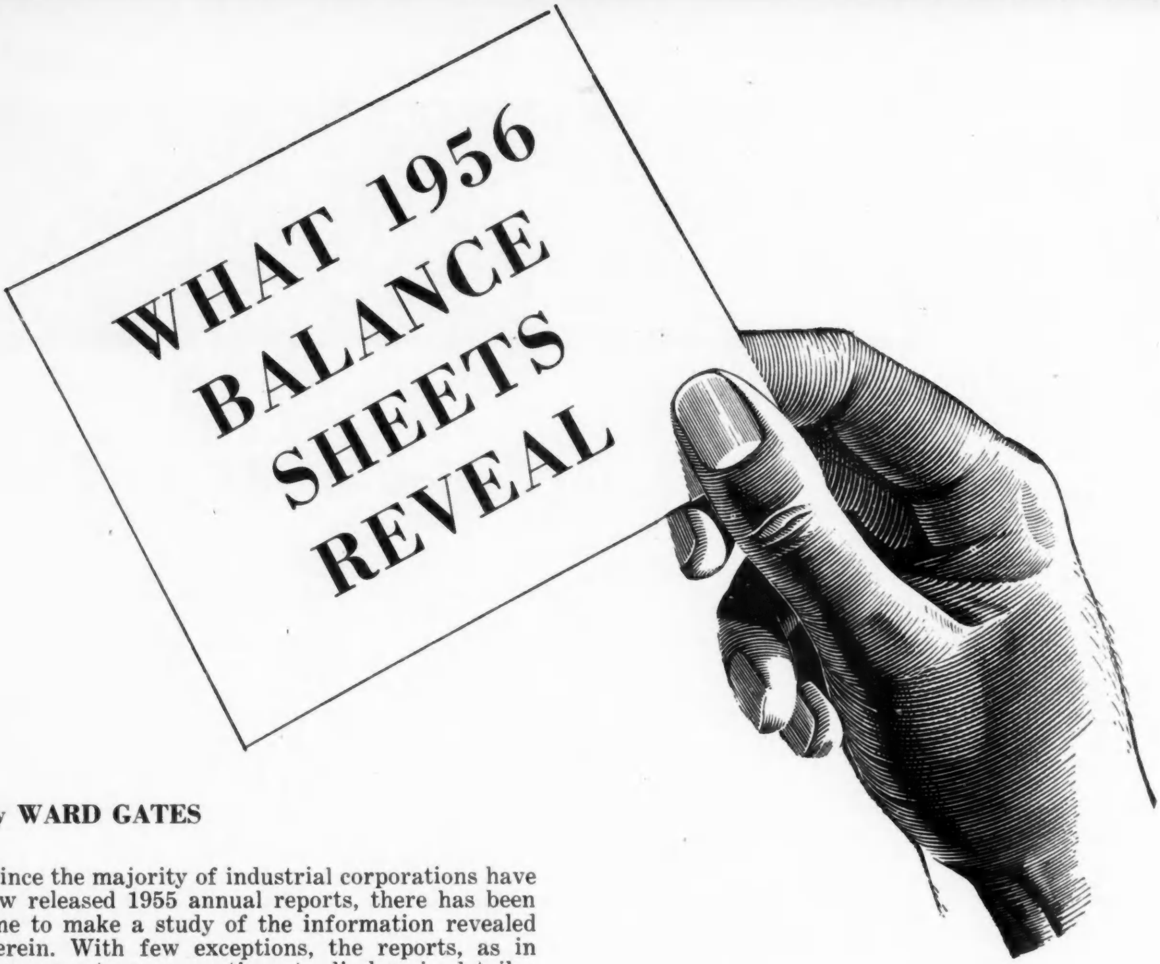
The investor should adjust the earnings statement before making comparisons.

Another problem raised by depreciation is the fact that it often does not cover the present cost of replacing plant and equipment, because the latter items are based on original cost. The ravages of inflation have greatly increased such costs.

Last year, George M. Humphrey, Secretary of the Treasury, asserted that the fast tax writeoff had become "an artificial stimulus of a dangerous kind." Business leaders disagreeing with Mr. Humphrey argued that it was cheaper than having the Government foot the bill for expansion programs. Their feeling was that if Washington wanted steel (or electric generating stations or railroad boxcars or plants) for defense, then the fast tax writeoffs should be renewed.

The fact, of course, is that they have not been renewed on anything like the scale of a few years ago.

Whether rapid amortization is "dangerous" or not, there's strong evidence that it's an expansion stimulus. From 1951 through 1954, business spending on new plant and equipment totaled $107 billion, an increase of $24 billion over the outlay in the pre-fast writeoff period of 1947-1950. Spending on fast writeoff projects in the later period toted up to $22 billion, almost equal to the overall increase.




By WARD GATES

Since the majority of industrial corporations have now released 1955 annual reports, there has been time to make a study of the information revealed therein. With few exceptions, the reports, as in more recent years, continue to disclose in detail a great amount of information and show a number of pronounced general trends, although the latter vary somewhat. This, of course, is not surprising considering the diversity of experience of individual companies in different industries.

An outstanding feature of almost all the companies whose annual reports for last year were scrutinized is the continued growth in total assets. This growth, in almost every instance, was accompanied by record sales and a generally high level of earnings. In this connection, according to statistics compiled by the Sécurities and Exchange Commission jointly with the Federal Trade Commission, practically all major industries indicated gains in sales in 1955 over 1954.

### Durable and Nondurable Goods Industries

The durable goods industries, with total sales last year of more than $142 billion, made the largest gains, the overall increase over the previous year being 16 per cent. Leading this group were motor vehicle and equipment makers with sales of $27.8 billion, a gain of 29 per cent over 1954, with the iron and steel and nonferrous metals groups showing increases of more than 20 per cent. Other durable goods industries that ranked high from the standpoint of 1955 sales gains were stone, clay and glass products, fabricated metal products, and lumber and wood products.

Although nondurable goods industries overall 1955 increase in sales was 8 per cent, several groups in this classification registered substantial gains. These included rubber products with sales increase of 22 per cent; petroleum refining 17 per cent; paper and allied products 16 per cent; and chemicals 15 per cent. Ranking fifth in the nondurable goods industries were textile mills products with a 14 per cent increase in sales and an increase of 204 per cent in earnings after taxes. This earnings showing reflected the relatively poor 1954 earnings of the industry.

### A Significant Year

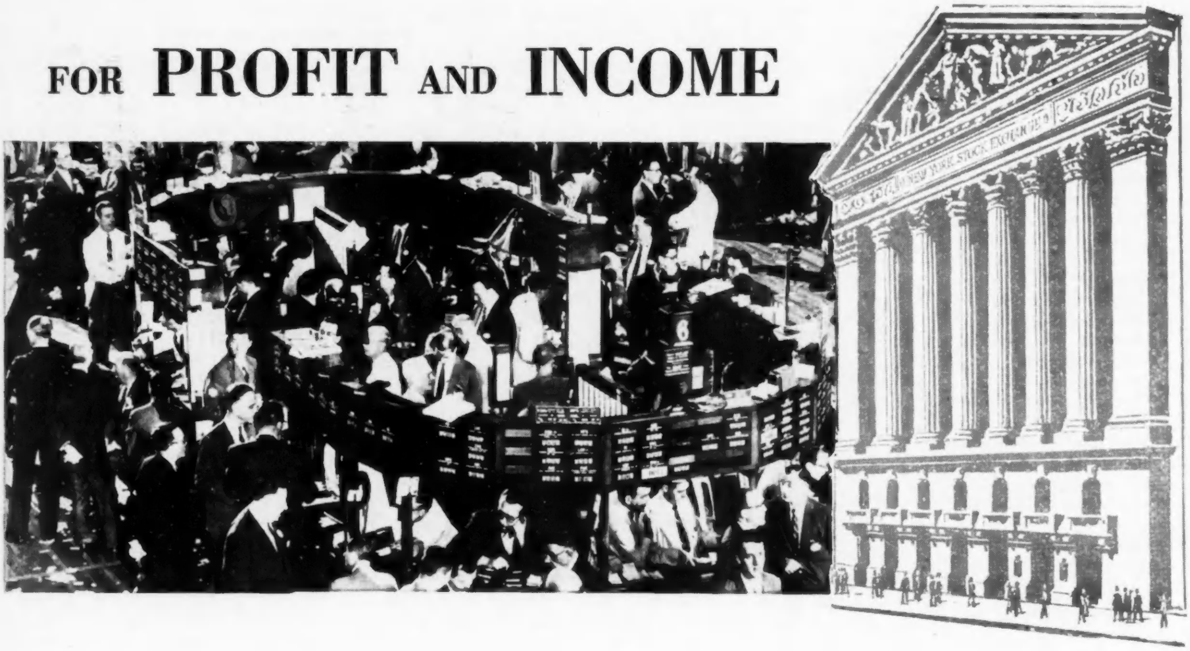
The year 1955 was significant for a number of other reasons. It marked the completion for many companies a full decade of plant modernization and expansion, further progress in productive technology, product research, and organization development. In this latter connection, the metamorphosis that began for some of these companies during World War II has been accelerated by these advances. As a result, some of them have changed to such an extent from the standpoint of plant and equipment, new products, general organization, and finances, they are almost incomparable with the same companies of 1940.

Another feature of many company reports for 1955 was the continued substantial capital expenditures for plant and equipment, as well as sustained high level spending on (*Please turn to page* 377)

## *Recent Balance Sheet Changes of Selected Companies*

| | Cash & Marketable Securities | Receivables | Inventories | Current Assets | Current Liabilities | Net Working Capital | Current Ratio | Ratio of Cash & Secur. to Cur. Liabil. | Long Term Debt | Invested Capital and Surplus | Total Assets | Annual Depreciation & Amort. Charges |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | (Millions) | | | | | | | | (Millions) | | | |
| **Allegheny Ludlum Steel** | | | | | | | | | | | | |
| December 31, 1955 | $ 23.6 | $ 19.7 | $ 43.7 | $ 88.8 | $ 40.1 | $ 48.7 | 2.2 | 58% | $ 30.2 | $ 90.8 | $163.8 | $10.8 |
| December 31, 1954 | 8.7 | 12.8 | 34.7 | 57.4 | 20.7 | 36.7 | 2.7 | 42 | 32.5 | 80.7 | 135.8 | 9.8 |
| **Aluminum Co. of America** | | | | | | | | | | | | |
| December 31, 1955 | 54.1 | 94.8 | 162.2 | 315.3 | 90.7 | 224.5 | 3.4 | 60 | 308.3 | 555.1 | 1,010.5 | 45.1 |
| December 31, 1954 | 57.6 | 81.0 | 162.9 | 304.4 | 121.7 | 182.6 | 2.5 | 47 | 336.3 | 486.2 | 982.2 | 40.6 |
| **American Cyanamid** | | | | | | | | | | | | |
| December 31, 1955 | 163.0 | 49.1 | 72.5 | 284.8 | 89.6 | 195.1 | 3.2 | 181 | 94.7 | 327.8 | 515.4 | 30.2 |
| December 31, 1954 | 141.5 | 47.6 | 72.9 | 262.1 | 77.5 | 184.6 | 3.3 | 182 | 108.2 | 312.9 | 499.9 | 23.6 |
| **American Tobacco** | | | | | | | | | | | | |
| December 31, 1955 | 23.6 | 47.7 | 656.2 | 727.6 | 171.7 | 555.8 | 4.2 | 14 | 206.3 | 423.6 | 801.7 | 3.5 |
| December 31, 1954 | 26.3 | 44.5 | 632.1 | 703.0 | 152.6 | 550.4 | 4.6 | 17 | 218.9 | 403.7 | 775.3 | 3.3 |
| **Babcock & Wilcox** | | | | | | | | | | | | |
| December 31, 1955 | 22.9 | 34.1 | 56.9 | 122.8 | 37.5 | 85.3 | 3.2 | 57 | 10.0 | 117.2 | 165.8 | 6.2 |
| December 31, 1954 | 27.3 | 39.2 | 40.9 | 122.7 | 41.7 | 80.9 | 3.0 | 65 | 10.0 | 106.3 | 161.4 | 5.2 |
| **Bethlehem Steel** | | | | | | | | | | | | |
| December 31, 1955 | 689.5 | 202.0 | 310.8 | 1,202.4 | 392.4 | 809.9 | 3.0 | 175 | 336.9 | 1,186.0 | 1,998.6 | 102.6 |
| December 31, 1954 | 395.3 | 140.5 | 267.2 | 803.1 | 302.9 | 500.1 | 2.6 | 130 | 152.1 | 1,079.9 | 1,613.4 | 92.8 |
| **Bridgeport Brass** | | | | | | | | | | | | |
| December 31, 1955 | 11.3 | 14.2 | 21.3 | 47.0 | 17.5 | 29.5 | 2.6 | 64 | ....... | 50.1 | 67.7 | 1.2 |
| December 31, 1954 | 13.9 | 8.0 | 20.1 | 42.1 | 17.3 | 24.8 | 2.4 | 80 | 6.1 | 37.9 | 61.3 | .9 |
| **Burroughs Corp.** | | | | | | | | | | | | |
| December 31, 1955 | 9.8 | 47.3 | 72.8 | 131.0 | 56.6 | 74.3 | 2.3 | 17 | 31.2 | 94.1 | 181.8 | 4.8 |
| December 31, 1954 | 17.4 | 29.4 | 62.0 | 109.6 | 45.4 | 64.2 | 2.4 | 38 | 28.5 | 74.5 | 148.3 | 3.4 |
| **Caterpillar Tractor** | | | | | | | | | | | | |
| December 31, 1955 | 10.8 | 48.4 | 135.0 | 194.3 | 100.7 | 93.6 | 1.9 | 10 | 35.0 | 199.5 | 335.3 | 18.4 |
| December 31, 1954 | 8.7 | 35.4 | 95.5 | 139.7 | 33.8 | 105.9 | 4.0 | 25 | 52.1 | 177.9 | 263.8 | 15.9 |
| **Chrysler Corp.** | | | | | | | | | | | | |
| December 31, 1955 | 349.9 | 121.3 | 388.1 | 891.1 | 585.8 | 305.3 | 1.5 | 59 | 125.0 | 652.2 | 1,362.8 | 165.0 |
| December 31, 1954 | 162.4 | 127.0 | 258.4 | 592.4 | 385.6 | 206.8 | 1.5 | 42 | 62.5 | 586.4 | 1,034.5 | 87.3 |
| **Container Corp. of America** | | | | | | | | | | | | |
| December 31, 1955 | 18.1 | 14.6 | 23.5 | 56.3 | 12.4 | 43.9 | 4.5 | 145 | 35.8 | 100.0 | 154.4 | 5.6 |
| December 31, 1954 | 10.7 | 8.9 | 13.8 | 33.5 | 8.9 | 24.5 | 3.7 | 120 | ....... | 89.9 | 98.3 | 4.1 |
| **Continental Can** | | | | | | | | | | | | |
| December 31, 1955 | 30.2 | 37.6 | 110.7 | 178.5 | 67.7 | 110.8 | 2.6 | 44 | 79.6 | 217.5 | 381.9 | 13.6 |
| December 31, 1954 | 17.7 | 33.9 | 111.3 | 162.9 | 80.6 | 82.3 | 2.0 | 21 | 55.6 | 204.2 | 358.0 | 11.9 |
| **Freeport Sulphur** | | | | | | | | | | | | |
| December 31, 1955 | 18.7 | 8.3 | 12.0 | 39.1 | 17.2 | 21.8 | 2.2 | 108 | ....... | 64.7 | 81.9 | 5.3 |
| December 31, 1954 | 8.8 | 5.7 | 11.7 | 26.3 | 15.2 | 11.1 | 1.7 | 57 | ....... | 50.7 | 65.9 | 4.8 |
| **Grace (W. R.) & Co.** | | | | | | | | | | | | |
| December 31, 1955 | 82.8 | 55.9 | 71.4 | 214.1 | 84.3 | 129.8 | 2.5 | 98 | 95.2 | 208.2 | 414.9 | 14.1 |
| December 31, 1954 | 74.1 | 41.7 | 68.6 | 187.5 | 75.3 | 112.2 | 2.5 | 98 | 83.1 | 192.9 | 375.7 | 11.5 |
| **Goodyear Tire & Rubber** | | | | | | | | | | | | |
| December 31, 1955 | 67.2 | 177.4 | 303.1 | 547.9 | 87.3 | 460.5 | 6.2 | 76 | 240.2 | 375.2 | 785.6 | 32.8 |
| December 31, 1954 | 51.0 | 168.4 | 249.3 | 468.8 | 106.8 | 362.0 | 4.4 | 48 | 191.4 | 288.3 | 668.6 | 33.8 |
| **Inland Steel** | | | | | | | | | | | | |
| December 31, 1955 | 100.1 | 49.3 | 106.6 | 256.0 | 90.1 | 165.8 | 2.8 | 111 | 84.1 | 332.2 | 513.7 | 21.5 |
| December 31, 1954 | 94.8 | 31.7 | 100.4 | 227.0 | 68.9 | 158.1 | 3.2 | 137 | 97.0 | 287.2 | 460.6 | 18.9 |
| **International Paper** | | | | | | | | | | | | |
| December 31, 1955 | 61.0 | 52.5 | 88.8 | 202.4 | 60.4 | 141.9 | 3.3 | 101 | ....... | 486.9 | 620.0 | 38.0 |
| December 31, 1954 | 63.8 | 43.7 | 90.9 | 198.5 | 47.4 | 151.1 | 4.2 | 134 | ....... | 429.2 | 549.4 | 31.8 |
| **Johns-Manville** | | | | | | | | | | | | |
| December 31, 1955 | 22.0 | 34.5 | 26.1 | 82.7 | 45.4 | 37.2 | 1.8 | 48 | 3.7 | 158.5 | 216.9 | 12.5 |
| December 31, 1954 | 14.1 | 29.9 | 23.5 | 67.6 | 38.2 | 29.3 | 1.7 | 36 | 4.0 | 146.8 | 198.0 | 11.6 |
| **Liggett & Myers** | | | | | | | | | | | | |
| December 31, 1955 | 11.6 | 24.5 | 389.0 | 425.2 | 92.4 | 332.8 | 4.6 | 12 | 107.2 | 258.8 | 458.5 | 2.7 |
| December 31, 1954 | 11.5 | 24.1 | 423.4 | 459.1 | 129.0 | 330.1 | 3.5 | 9 | 113.0 | 249.2 | 491.3 | 2.4 |
| **Link Belt** | | | | | | | | | | | | |
| December 31, 1955 | 19.7 | 19.4 | 26.5 | 65.9 | 17.3 | 48.5 | 3.8 | 113 | ....... | 73.3 | 90.7 | 2.6 |
| December 31, 1954 | 18.5 | 12.6 | 19.8 | 51.1 | 10.1 | 41.0 | 5.0 | 183 | ....... | 65.0 | 75.2 | 2.4 |
| **Monsanto Chemical** | | | | | | | | | | | | |
| December 31, 1955 | 47.4 | 56.6 | 81.3 | 185.4 | 50.3 | 135.0 | 3.7 | 94 | 154.4 | 344.7 | 562.5 | 35.0 |
| December 31, 1954 | 29.4 | 38.7 | 58.2 | 126.4 | 34.3 | 92.1 | 3.7 | 85 | 96.7 | 235.2 | 376.5 | 23.2 |
| **National Cash Register** | | | | | | | | | | | | |
| December 31, 1955 | 26.2 | 50.6 | 52.2 | 130.2 | 60.8 | 69.4 | 2.1 | 43 | 48.5 | 101.3 | 210.7 | 11.1 |
| December 31, 1954 | 14.4 | 39.2 | 53.7 | 108.3 | 51.0 | 57.2 | 2.1 | 28 | 39.8 | 92.5 | 183.4 | 8.9 |
| **Union Carbide & Carbon** | | | | | | | | | | | | |
| December 31, 1955 | 301.7 | 142.7 | 232.7 | 677.2 | 229.1 | 448.1 | 2.9 | 131 | 410.0 | 732.8 | 1,371.9 | 106.3 |
| December 31, 1954 | 188.3 | 119.4 | 245.7 | 553.5 | 156.9 | 396.6 | 3.5 | 120 | 420.0 | 674.6 | 1,251.6 | 93.6 |
| **U. S. Steel** | | | | | | | | | | | | |
| December 31, 1955 | 567.4 | 300.5 | 475.0 | 1,343.1 | 647.9 | 695.1 | 2.0 | 87 | 286.0 | 2,582.5 | 3,620.3 | 288.4 |
| December 31, 1954 | 639.5 | 214.9 | 471.4 | 1,326.0 | 574.0 | 752.0 | 2.3 | 111 | 324.1 | 2,348.7 | 3,348.6 | 264.5 |

# FOR PROFIT AND INCOME



**Reaction?**

Time alone will tell whether the decline in stock prices from the April 6 high for industrials and the May 9 high for rails will go into the records as an intermediate correction or the start of a bear market. At this writing, it has taken the industrial average down about 9.3% and cancelled seven-eighths of the February-April phase of advance. In modern bull markets purely technical corrections seldom have amounted to that much, especially in recent years; and it has taken news shocks, or apprehension about the business outlook, to induce declines of 10% or more. The two biggest news shocks in recent years were President Eisenhower's heart attack last September, knocking the industrial average down about 10% in little over two weeks; and the outbreak of the Korean war in June, 1950, putting the average down 13% in about three weeks. But this is no news shock. At present, though the technical indications are inconclusive, trend possibilities should be regarded not only with caution, but with suspicion. The answers to the following three questions and especially the last two will be illuminating: (1) Will this sell-off halt around or above the February lows? (2) Will the usual summer rise amount to more than a rally? (3) Will it be followed by a slide below whatever lows are recorded on this move?

**Bear Markets**

All bear markets since that of 1939-1942 have been moderate-to-minor, either because concern about the economic outlook proved groundless, as in 1946-1947; or because business recession proved to be mild, as in 1948-1949 and 1953-1954. But they were painful enough, especially in the case of more speculative stocks. For reference, here are the percentage declines: 1946-1947, Dow industrial average about 23%, rails 40%, utilities 26%, representative high-grade income stocks around 20%, typical "cats and dogs" over 50%. The 1948-1949 bear market: Industrial average down over 16%, rails 37%, utilities over 7%, income stocks 4%, "cats and dogs" about 37%. It is a moot point whether the 1953 slide was an "interruption" or a minor bear market, although it is technically classed as the latter. In about eight and a half months it took the industrial average down about 13%, rails nearly 25%, utilities 11% (in three months), high-grade income stocks generally about 4%, the "cat and dog" section around 30%. If this turns out to be a bear market, probably it will be moderate—but "moderate" is a fairly broad word. Precisely *how* moderate it might be would depend primarily on business developments over the rest of this year and in 1957. One opinion can be voiced: Utilities and other good defensive-type income stocks generally are not seriously vulnerable and are already in a range suitable for selective, longer-range investment buying, even though

**INCREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1956 | 1955 |
|---|---|---|---|
| Carpenter Steel Co. | Quar. Mar. 31 | $2.09 | $1.08 |
| American Mach. & Foundry | Quar. Mar. 31 | .86 | .35 |
| Kennecott Copper | Quar. Mar. 31 | 4.08 | 2.68 |
| Pullman, Inc. | Quar. Mar. 31 | 1.32 | .58 |
| Air Reduction | Quar. Mar. 31 | 1.09 | .68 |
| American Home Products | Quar. Mar. 31 | 1.86 | 1.21 |
| Fansteel Metallurgical | Quar. Mar. 31 | 1.04 | .64 |
| International Salt | Quar. Mar. 31 | 4.56 | 3.32 |
| Joy Manufacturing Co. | 6 mos. Mar. 31 | 2.73 | 1.23 |
| Georgia-Pacific Corp. | Quar. Mar. 31 | 1.50 | 1.26 |

they could go lower. Against that, the risk in most speculative stocks, despite the markdown in prices to date, may be large.

**Prominent**

In the long list of stocks which have fallen recently to new 1956 lows, a number of prominent issues, and some Big Names, are included, such as: du Pont, Ford Motor, American Can, Monsanto Chemical, Campbell Soup, Chrysler, Coca-Cola, United Fruit, Commercial Credit, C.I.T. Financial, First National Stores, Federated Department Stores, Inland Steel, Woolworth, Westinghouse Electric, Montgomery Ward, Underwood, Texas Gulf Sulphur, Sears Roebuck, American Radiator, Penney, Douglas Aircraft, Hercules Powder, United Aircraft, Hershey Chocolate, Borden, Liggett & Myers, Bendix Aviation and International Harvester.

**Few**

Stocks showing special strength at this time are fewer than in some months. Among those which have recently bucked the general trend enough to attain new highs are American Broadcasting-Paramount, American Encaustic Tiling, Consolidated Natural Gas and Hertz, all of which have been recommended here at lower levels. Also: Georgia-Pacific Corp., Dunhill, International Business Machines, Kansas Gas & Electric, Duquesne Lighting and Houston Oil. Whether they will be faring equally well by the time you read this item is something else again. Regarding the first four issues which we have recommended, our present advice is: Stay with them. The performance of most other issues commented on favorably here within recent months is either better than that of the general market or in any event not disturbing.

**Groups**

Stock groups which are performing worse than average at this writing include air transport, aircraft, aluminum, automobiles, liquor, gold-mining, finance companies, baking, food brands, food stores, radio-television, department stores, mail-order stores, variety stores, coppers, electrical equipments, building materials, oils, metal fabricating, motion pictures, steel and textiles. No group is presently showing outstanding strength. Those currently getting better-than-average support include confectionery, drugs, machine tools, dairy products, bank stocks, natural gas and tobaccos. In some unfavored groups the recent additional declines have been slight, previous profit-taking or liquidation having reduced their technical vulnerability. Among them are baking, farm machinery, liquor, variety-store chains and textiles. Earlier, we commented adversely here on retailing stocks. Most of them are down substantially. You should not at this stage get over-bearish—to the point of pressing selling—on leading issues among them. They are either pretty well sold out or soon should be. The outlook for personal income, the much-slowed rise in instalment debt and increasing debt repayments suggest a basis for some perking up in trade volume later in the year. That should be a more opportune time to dispose of retail stocks you wish you had not bought.

**So What?**

With the stock at the far from high level of 30 or so, directors of Chickasha Cotton Oil recently proposed a 2-for-1 split. It might be justified by the fact that there are only 255,000 shares now outstanding; and negotiation for a merger with Flour Mills of America, Inc. may be an angle. Earnings for the nine months ended March 31 are estimated officially at about $2.42 a share, suggesting that profit for the fiscal year ending June 30 may be the best in some years. The longer-range profit-dividend record has been indifferent, featured by sharp ups and downs, and deficits in some years. This is not the kind of dynamic growth situation that stock splits are usually associated with; and a split will not of itself keep a so-so stock up. An earlier example was Rexall Drug, split 2-for-1 in 1946 when the stock was around 38. Its highest price after the split was 19⅜. Where is it now? Answer: At 9¾.

**Oils**

There is nothing the matter with leading oil stocks – except that they had run too far ahead of earnings and dividends. That is a good enough reason why they are currently falling at a faster rate than the industrial list, which they had previously outgained for some time. The 1956 domestic oil-product demand is expected to rise around 5%. Continuing the trend of recent years, foreign consumption – moving up from a much lower per-capita level—will show a gain considerably larger than that. Refinery spreads are good, and well above those of a year ago. Varying from company to company, full-year earnings probably will average between 7% and 10% above 1955's. While remaining conservative, 1956 dividends will be above a year ago in many instances. A boost of 25 cents a barrel, or moderately more, in the price of domestic crude oil, and the usual proportionate rise in product prices, is still believed to be ahead; but will come later than had been expected earlier. It might go into effect late this year or in the forepart of 1957. Supplies, including imports, do not appear to be excessive. Big-Name oils will remain perennial favorites of institutional investors, and will be steadily bought by them on a dollar-averaging basis at marked-down prices. But individual investors do not have the funds to operate that way; and, for their purposes, need for haste in buying is not evident. It is problematical how much further the stocks might decline. In general, profit rates are highest and growth trends strongest among the international companies be-

(*Please turn to page* 384)

**DECREASES SHOWN IN RECENT EARNINGS REPORTS**

| | | 1956 | 1955 |
|---|---|---|---|
| Foster Wheeler Corp. | Quar. Mar. 31 | $ .40 | $ .50 |
| National Theatres, Inc. | 26 weeks Mar. 24 | .34 | .46 |
| North American Aviation | Quar. Mar. 31 | 2.24 | 2.51 |
| Philco Corp. | Quar. Mar. 31 | .38 | .62 |
| Clevite Corp. | Quar. Mar. 31 | .37 | .61 |
| St. Louis-San Fran. Rwy. | Quar. Mar. 31 | .58 | .99 |
| Electric Auto-Lite | Quar. Mar. 31 | .74 | 2.05 |
| American Agricult. Chem. | 9 mos. Mar. 31 | 1.82 | 2.57 |
| Southern Pacific Transp. Sys. | Quar. Mar. 31 | 1.53 | 1.77 |
| Texas Gulf Sulphur | Quar. Mar. 31 | .73 | .88 |

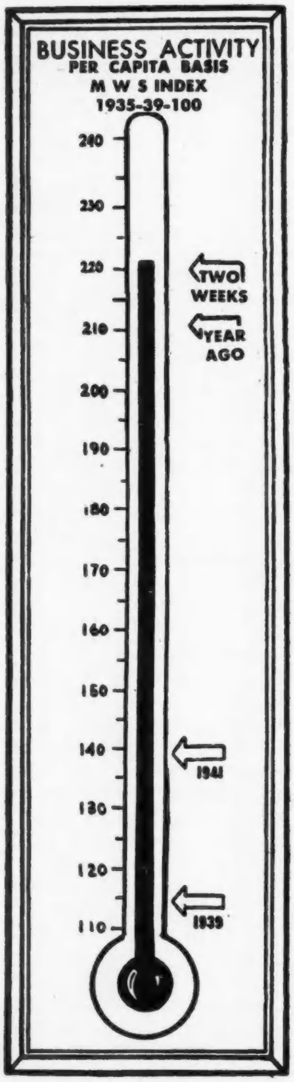
## The Business Analyst

# WHAT'S AHEAD FOR BUSINESS?

By E. K. A.

The nation has witnessed varied retailing innovations, such as the supermarket, the self-service system of merchandising and the discount house. Now it is confronted with an old concept that is being revived after a decades-long ban.

This is the rising trend toward doing business on Sundays, a practice that has grown up with the development of the store on the surburban highway. There is no general disposition on the part of the urban department or specialty store to open its doors on Sunday, but merchants are keenly aware of the business lost to them through "Sunday sales." Many of them have been waging a fight against the stores that do business on Sunday. In several states, they have been helped by the so-called "blue laws" that forbid Sunday openings. Where the opponents of this new trend in retailing must fall back on local ordinances, they often are handicapped by the fact that the highway store is in a community that has no law covering the subject.




While they have protested to public officials the loss to them from this kind of competition, they have sought to win even wider favor for their viewpoint by asserting that Sunday openings are in violation of long-time community traditions and represent a step backward to the seven-day week. Their cause often is weakened by the fact that the blue laws, in many places, do not provide penalties for offenders.

On the side of the seven-day merchandiser, there is the fact that something in the nature of a revolution in American living has taken place. The new millions of suburban dwellers are motorized, whereas their urbanized parents walked or rode the tractions to the retail district. Families today pile into the car and shop as a unit. Their elders, generally, left the shopping to Mother.

The week-round merchandiser can (and does) offer the argument that he is providing a valuable service to shoppers who work all week and find it inconvenient to shop on any other day. This is especially true in industrial regions, where three-turn factory operations are quite common.

Since a good deal is at stake, there is expected to be considerable lobbying to halt the trend. Already, in Florida, furniture dealers are preparing to seek legislation from the state that would bar opening of furniture stores on Sundays. Highway stores that sell everything from sundries to big-ticket items are a familiar feature of the Florida landscape.

In New Jersey, hundreds of business men have formed the New Jersey Association for Sunday Closing of Non-essential Business. Highway shops of the discount-store type are numerous in that state. Opponents are seeking a state law that would stop these stores from operating on Sundays.

A struggle also seems to be shaping up in Ohio. In Cleveland, as an example, owners of home-furnishings shops were told they were violating the law by remaining open on Sunday. They told authorities they would continue to remain open on this day as long as other establishments in the area were not punished for doing the same thing.

Old-line department stores and other downtown operations long ago moved in the direction of curtailed hours, notably the five-day week of the summer months. They are hostile to the Sunday enterprise, for the most part. However, a few department stores in the West have been transacting a "warehouse business" on Sundays.

Thus, another in a long series of problems has mercantile operators deeply concerned. At the moment, the Sunday store does not loom large, but the keen retailer knows from much experience that here is a trend that can prove extremely hurtful. He has no difficulty in recalling that fair-trade violators once were few and that discount houses were hole-in-the-wall operations which commanded little consumer confidence.

Since the stakes are large, the Sunday operators may be expected to fight the enactment of deterrent legislation and to go into the courts to test the validity of such laws.

# The Business Analyst

# HIGHLIGHTS

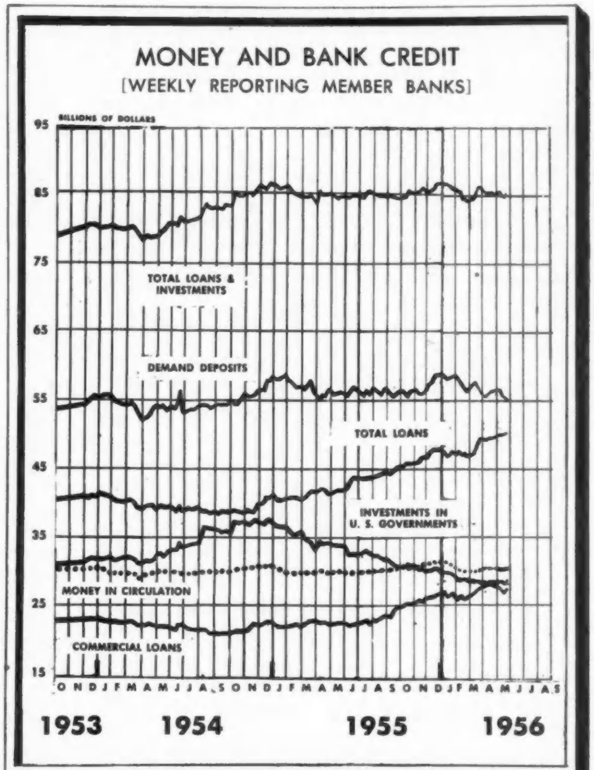
**MONEY & CREDIT**—That a troubled stock market stimulates demand for high grade fixed income securities, has been illustrated anew in recent weeks. While equity prices were declining precipitously during most of May, bonds were the beneficiaries of healthy demand. Treasury obligations displayed the greatest buoyancy, with the longer term issues adding ⅞ to 1¼ points in the two weeks ending May 28. The municipal field revealed powerful support, with plentiful advances of a point or more in evidence, this in the face of a late deluge of offerings which saw $216 million worth of new tax exempts hit the market in the week ending May 26 without causing any dent in prices. The Memorial Day period will give underwriters a brief respite, but they will then face another resurgence of activity, as evidenced by the $283 million of municipal bond offerings scheduled for the next 30 days.

The corporate bond market has been firm during the period under review but price advances were modest in most cases. Although the huge General Electric flotation of $300 million in debentures, which came to market in mid-May, was an immediate sell-out, it apparently dampened demand for other corporate obligations. Investors are also ear-marking sizeable sums for purchase of the new American Telephone and Telegraph debentures, due next month, and between them, these two issues have captured an important share of the funds available for purchase of corporate bonds.

Several factors account for the marked improvement in the general tone of the bond markets. Stock market weakness, of course raised pertinent questions about the health of current business and induced many investors to seek the comparative safety of fixed income obligations. Another development working in the same direction has been the mounting criticism heaped on the Federal Reserve for its most recent hike in the rediscount rate. This has aroused conjecture as to the influence that such opposition could wield on future credit policies. That some easing may be in the cards, is hinted by the recent statement from a Federal Reserve spokesman, indicating that the Central Bank would supply the commercial banks with enough funds to meet increasing seasonal needs, including the heavy calls stemming from the June 15 corporate tax liabilities. This action may have started already, with the Federal allowing excess reserves to jump by failing to fully counteract the effect of a recent $202 million rise in the volume of uncollected checks. This has made for a sudden easing of short term money, a luxury that the banks have not enjoyed for some time.

———o———

**TRADE**—Some improvement in consumer demand has been noted recently according to data from Dun & Bradstreet, which estimates that nation-wide retail sales for the week ending Wednesday, May 23, were about 5% ahead of a year ago. Noticeable increases were reported in outdoor furniture, air conditioners and men's Summer apparel. Auto buying held steady, at levels well below a year ago. Household furnishings moved well but sales of television receivers declined considerably.




**INDUSTRY**—Industrial output was slightly higher in April and the Federal Reserve Board's seasonally adjusted production index rose 1 point, to 142% of the 1947-1949 average. Output of electrical machinery gained sharply as the result of the settlement of the prolonged strike at Westinghouse Electric. Steel output held at capacity during April but eased somewhat in May. Auto assemblies declined further in April and continued to decline in May. Manufacturers of major household goods increased their turnout while production of most nondurables showed little change.

———o———

**COMMODITIES**—The Bureau of Labor Statistics' index of spot prices of 22 leading commodities fell 1.8% in the two weeks ending May 25, to close at 89.3% of the 1947-1949 average. All seven subdivisions of the index were lower with raw industrial materials and metals hit hardest. The former lost 2.4% and the latter gave up 3.0%. Losses by the other components were as follows: Raw foods off 0.2%, livestock, 1.1%, textiles, 0.6% and fats and oils, 2.2%.

*(Please turn to following page)*

# Essential Statistics

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **MILITARY EXPENDITURES—$b (e)** | Apr. | 3.2 | 3.2 | 3.2 | 1.6 |
| Cumulative from mid-1940 | Apr. | 624.4 | 621.2 | 584.1 | 13.8 |
| **FEDERAL GROSS DEBT—$b** | May 22 | 276.3 | 275.7 | 277.4 | 55.2 |
| **MONEY SUPPLY—$b** | | | | | |
| Demand Deposits—94 Centers | May 16 | 55.0 | 55.6 | 56.3 | 26.1 |
| Currency in Circulation | May 23 | 30.3 | 30.4 | 29.8 | 10.7 |
| **BANK DEBITS—(rb)**** | | | | | |
| New York City—$b | Apr. | 65.7 | 69.1 | 57.6 | 16.1 |
| 343 Other Centers—$b | Apr. | 113.9 | 110.0 | 103.8 | 29.0 |
| **PERSONAL INCOME—$b (cd2)** | Mar. | 314.9 | 313.3 | 295.7 | 102 |
| Salaries and Wages | Mar. | 217 | 216 | 203 | 99 |
| Proprietors' Incomes | Mar. | 49 | 49 | 49 | 23 |
| Interest and Dividends | Mar. | 29 | 28 | 26 | 10 |
| Transfer Payments | Mar. | 18 | 18 | 17 | 10 |
| **(INCOME FROM AGRICULTURE)** | Mar. | 14 | 14 | 15 | 3 |
| **POPULATION—m (e) (cb)** | Apr. | 167.4 | 167.2 | 164.6 | 133.8 |
| Non-Institutional, Age 14 & Over | Apr. | 118.4 | 118.3 | 117.1 | 101.8 |
| Civilian Labor Force | Apr. | 65.6 | 65.9 | 64.6 | 55.6 |
| Armed Forces | Apr. | 2.9 | 2.9 | 3.1 | 1.6 |
| unemployed | Apr. | 2.6 | 2.8 | 3.0 | 3.8 |
| Employed | Apr. | 64.0 | 63.1 | 61.7 | 51.8 |
| In Agriculture | Apr. | 6.4 | 5.7 | 6.2 | 8.0 |
| Non-Farm | Apr. | 57.6 | 57.4 | 55.5 | 43.2 |
| Weekly Hours | Apr. | 41.3 | 40.7 | 41.2 | 42.0 |
| **EMPLOYEES, Non-Farm—m (b)** | Apr. | 50.0 | 49.8 | 48.6 | 37.5 |
| Government | Apr. | 7.1 | 7.1 | 6.9 | 4.8 |
| Trade | Apr. | 10.8 | 10.8 | 10.5 | 7.9 |
| Factory | Apr. | 13.1 | 13.2 | 12.8 | 11.7 |
| Weekly Hours | Apr. | 40.2 | 40.4 | 40.3 | 40.4 |
| Hourly Wage ($) | Apr. | 1.95 | 1.95 | 1.86 | 0.66 |
| Weekly Wage ($) | Mar. | 78.39 | 78.78 | 74.96 | 21.33 |
| **PRICES—Wholesale (lb2)** | May 22 | 114.4 | 114.3 | 109.9 | 66.9 |
| Retail (cd) | Mar. | 208.2 | 207.7 | 207.5 | 116.2 |
| **COST OF LIVING (lb2)** | Apr. | 114.9 | 114.7 | 114.2 | 65.9 |
| Food | Apr. | 109.6 | 109.0 | 111.2 | 65.9 |
| Clothing | Apr. | 104.8 | 104.8 | 103.1 | 59.5 |
| Rent | Apr. | 131.7 | 131.6 | 129.9 | 89.7 |
| **RETAIL TRADE—$b**** | | | | | |
| Retail Store sales (cd) | Mar. | 15.7 | 15.3 | 15.1 | 4.7 |
| Durable Goods | Mar. | 5.5 | 5.4 | 5.5 | 1.1 |
| Non-Durable Goods | Mar. | 10.3 | 10.0 | 9.6 | 3.6 |
| Dep't Store Sales (mrb) | Mar. | 0.92 | 0.90 | 0.87 | 0.34 |
| Consumer Credit, End Mo. (rb) | Mar. | 35.5 | 35.3 | 29.9 | 9.0 |
| **MANUFACTURERS'** | | | | | |
| New Orders—$b (cd) Total** | Mar. | 26.8 | 27.6 | 26.5 | 14.6 |
| Durable Goods | Mar. | 13.4 | 14.1 | 13.4 | 7.1 |
| Non-Durable Goods | Mar. | 13.5 | 13.5 | 13.1 | 7.5 |
| Shipments—$b (cd)—Totals** | Mar. | 27.1 | 27.2 | 26.0 | 8.3 |
| Durable Goods | Mar. | 13.3 | 13.6 | 12.9 | 4.1 |
| Non-Durable Goods | Mar. | 13.7 | 13.6 | 13.1 | 4.2 |
| **BUSINESS INVENTORIES, End Mo.**** | | | | | |
| Total—$b (cd) | Mar. | 83.8 | 83.6 | 77.5 | 28.6 |
| Manufacturers' | Mar. | 47.4 | 46.9 | 43.3 | 16.4 |
| Wholesalers' | Mar. | 12.6 | 12.5 | 11.6 | 4.1 |
| Retailers' | Mar. | 23.8 | 24.2 | 22.6 | 8.1 |
| Dept. Store Stocks (mrb) | Mar. | 2.7 | 2.7 | 2.5 | 1.1 |
| **BUSINESS ACTIVITY—1—pc** | May 19 | 221.8 | 221.3 | 212.2 | 141.8 |
| (M. W. S.)—1—np | May 19 | 285.8 | 285.2 | 268.3 | 146.5 |

## PRESENT POSITION AND OUTLOOK

*(Continued from page 365)*

**NEW HOUSING STARTS** increased by 10% in April, but the advance was no more than seasonal, the Bureau of Labor Statistics has reported. The April 1956 total came to 106,000 units, about 20% below the high volume attained in the same month of 1955. Of the latest total, 105,000 units were privately financed, equivalent to a seasonally adjusted annual rate of 1,110,000, about the same as for the previous two months, but almost 25% under the record, reached in December, 1954.

Dollar value of contract awards for residential building continued at high levels in April, amounting to $1,144,000,000, according to F. W. Dodge Corporation figures. This was 7% ahead of a year ago.

* * *

Factory sales of **PASSENGER CARS** fell to 552,881 in April, down from 583,169 in March and 753,434 a year ago. Output is still ahead of current demand, according to the latest figures on stocks in dealers' hands. These rose to 902,270 vehicles on May 1, from 898,669 a month earlier and 763,041 on May 1, 1955. Record levels of current stocks are forcing manufacturers to cut production further in May, in order to reduce this year's stocks before the new models begin to come out in volume this Fall.

* * *

New orders for **MACHINE TOOLS** eased a bit in April, the total amounting to $83.5 million, versus $95.3 million the previous month. It was well above the $52.7 million of incoming orders received a year ago. Shipments came to $71.8 million in April, somewhat under March results. Rate of output was estimated at $76.6 million and at this level it would take 8.4 months to complete all orders on the books at the end of April. This compares with 8.6 months for end of March backlogs and 4.5 months for orders on the books a year ago, at then-current output of $69.2 million a month.

* * *

**BUSINESS FAILURE** came to 985 firms in April, the lowest monthly total so

# and Trends

| | Date | Latest Wk. or Month | Previous Wk. or Month | Year Ago | Pre-Pearl Harbor* |
|---|---|---|---|---|---|
| **INDUSTRIAL PROD.-la np (rb)** | Apr. | 142 | 141 | 136 | 93 |
| Mining | Apr. | 130 | 130 | 119 | 87 |
| Durable Goods Mfr. | Apr. | 159 | 157 | 151 | 88 |
| Non-Durable Goods Mfr. | Apr. | 128 | 128 | 126 | 89 |
| **CARLOADINGS—t—Total** | May 19 | 779 | 778 | 774 | 993 |
| Misc. Freight | May 19 | 383 | 375 | 387 | 379 |
| Mdse. L. C. L. | May 19 | 60 | 60 | 63 | 66 |
| Grain | May 19 | 50 | 51 | 48 | 43 |
| **ELEC. POWER Output (Kw.H.) m** | May 19 | 10,875 | 10,837 | 9,730 | 3,266 |
| **SOFT COAL, Prod. (st) m** | May 19 | 9.8 | 10.1 | 9.1 | 10.8 |
| Cumulative from Jan. 1 | May 19 | 199.2 | 189.4 | 170.5 | 44.6 |
| Stocks, End Mo. | Mar. | 65.9 | 65.3 | 63.7 | 61.8 |
| **PETROLEUM—(bbls.) m** | | | | | |
| Crude Output, Daily | May 18 | 7.1 | 7.0 | 6.7 | 4.1 |
| Gasoline Stocks | May 18 | 187 | 188 | 171 | 86 |
| Fuel Oil Stocks | May 18 | 33 | 33 | 43 | 94 |
| Heating Oil Stocks | May 18 | 68 | 65 | 76 | 55 |
| **LUMBER, Prod.—(bd. ft.) m** | May 19 | 255 | 259 | 280 | 632 |
| Stocks, End Mo. (bd. ft.) b | Mar. | 8.5 | 8.7 | 9.1 | 7.9 |
| **STEEL INGOT PROD. (st) m** | Apr. | 10.5 | 10.9 | 9.8 | 7.0 |
| Cumulative from Jan. 1 | Apr. | 42.4 | 31.9 | 37.1 | 74.7 |
| **ENGINEERING CONSTRUCTION AWARDS—$m (en)** | May 24 | 310 | 300 | 403 | 94 |
| Cumulative from Jan. 1 | May 24 | 9,719 | 8,869 | 7,543 | 5,692 |
| **MISCELLANEOUS** | | | | | |
| Paperboard, New Orders (st)t | May 19 | 240 | 251 | 237 | 165 |
| Cigarettes, Domestic Sales—b | Feb. | 31 | 34 | 28 | 17 |
| Do., Cigars—m | Feb. | 505 | 453 | 438 | 543 |
| Do., Manufactured Tobacco (lbs.)m | Feb. | 15 | 16 | 15 | 28 |

## PRESENT POSITION AND OUTLOOK

far this year, but 9% above a year ago. The index of the rate of failure, compiled by Dun & Bradstreet, stood at 42 in April. This compares with 46 the previous month and 37 in April, 1955. Casualties in April were less numerous in all industries except construction, where a slight increase was noted. The most noticeable decreases were in retailing and manufacturing. All geographic regions reported fewer failures in April with the biggest cut in the Middle Atlantic area.

* * *

**LIABILITIES** of failing firms dipped 2% in April, to $41,871,000. Failures among the bigger firms were higher while casualties among the group with liabilities under $5,000, decreased to the lowest level since September, 1955.

* * *

Outlays for **NATIONAL ADVERTISING** declined in March, and Printers' Ink seasonally adjusted index fell to 192% of the 1947-1949 average, from 196% the previous month. It was still 9% ahead of a year ago. Magazine advertising was 2% ahead of the previous month and farm publications garnered a 7% increase. Newspapers registered a 13% drop in advertising while network television had a 1% loss from the previous month.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. l—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

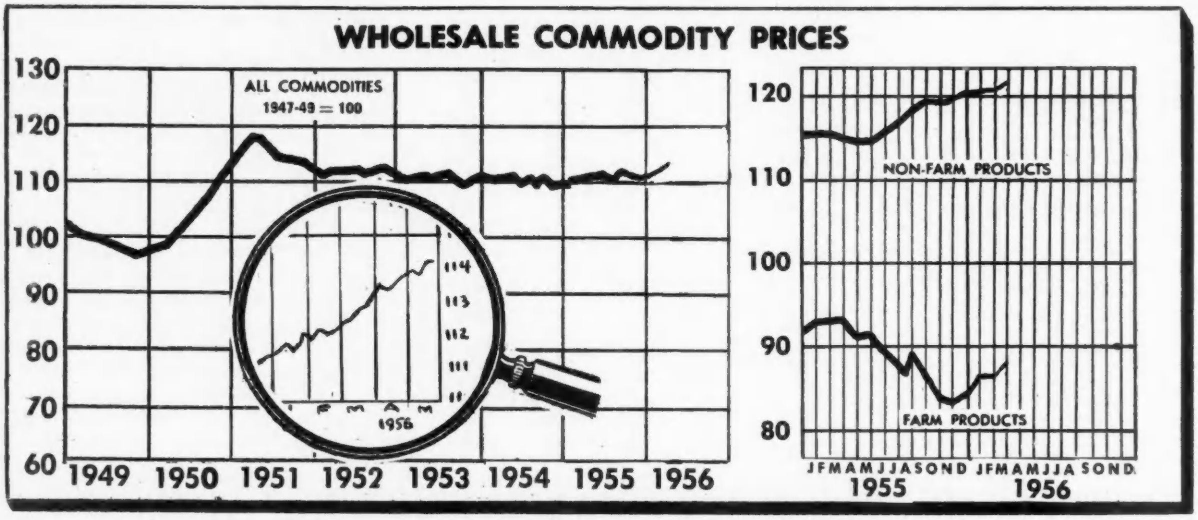
| No. of Issues (1925 Cl.—100) | 1955-56 Range High | 1955-56 Range Low | 1956 May 18 | 1956 May 25 |
|---|---|---|---|---|
| 300 Combined Average | 351.3 | 282.0 | 342.7 | 328.0 |
| 4 Agricultural Implements | 348.7 | 251.9 | 261.7 | 251.9L |
| 3 Air Cond. ('53 Cl.—100) | 116.0 | 87.0 | 108.8 | 103.8 |
| 9 Aircraft ('27 Cl.—100) | 1205.5 | 871.7 | 1136.4 | 1064.6 |
| 7 Airlines ('27 Cl.—100) | 1263.6 | 950.3 | 981.6 | 950.3L |
| 4 Aluminum ('53 Cl.—100) | 511.2 | 191.1 | 481.5 | 455.6 |
| 6 Amusements | 180.6 | 147.0 | 170.7 | 164.4 |
| 9 Automobile Accessories | 373.7 | 308.3 | 355.9 | 341.7 |
| 6 Automobiles | 55.8 | 44.3 | 48.6 | 47.1 |
| 4 Baking ('26 Cl.—100) | 30.6 | 26.7 | 27.3 | 26.7L |
| 3 Business Machines | 1072.9 | 657.4 | 1046.1 | 1001.4 |
| 6 Chemicals | 652.3 | 466.6 | 610.4 | 580.4 |
| 4 Coal Mining | 23.5 | 14.8 | 21.8 | 21.2 |
| 4 Communications | 116.6 | 100.7 | 105.9 | 103.9 |
| 9 Construction | 136.4 | 106.4 | 134.0 | 127.9 |
| 7 Containers | 807.9 | 675.1 | 785.1 | 739.3 |
| 7 Copper Mining | 361.3 | 222.2 | 334.4 | 313.5 |
| 2 Dairy Products | 127.0 | 111.7 | 116.4 | 111.7 |
| 6 Department Stores | 100.2 | 80.0 | 87.1 | 86.2 |
| 5 Drugs-Eth. ('53 Cl.—100) | 198.3 | 129.6 | 193.1 | 184.3 |
| 6 Elec. Eqp. ('53 Cl.—100) | 209.9 | 151.3 | 202.6 | 191.6 |
| 2 Finance Companies | 651.1 | 548.1 | 548.1 | 548.1 |
| 6 Food Brands | 301.6 | 256.2 | 298.7 | 289.9 |
| 3 Food Stores | 175.3 | 137.7 | 164.0 | 159.2 |

| (Nov. 14, 1936 Cl.—100) | High | Low | 1956 May 18 | 1956 May 25 |
|---|---|---|---|---|
| 100 High Priced Stocks | 239.7 | 180.6 | 232.4 | 222.1 |
| 100 Low Priced Stocks | 411.1 | 343.5 | 403.0 | 387.3 |
| 4 Gold Mining | 882.7 | 649.1 | 786.3 | 764.1 |
| 4 Investment Trusts | 171.2 | 140.8 | 166.5 | 155.5 |
| 3 Liquor ('27 Cl.—100) | 1155.7 | 961.3 | 1025.5 | 984.8 |
| 9 Machinery | 447.5 | 317.7 | 436.0 | 416.7 |
| 3 Mail Order | 234.1 | 159.3 | 195.4 | 186.6 |
| 4 Meat Packing | 170.7 | 112.8 | 164.0 | 157.2 |
| 5 Metal Fabr. ('53 Cl.—100) | 213.2 | 155.9 | 205.7 | 192.6 |
| 10 Metals, Miscellaneous | 469.2 | 358.2 | 452.0 | 421.9 |
| 4 Paper | 1301.8 | 767.1 | 1259.8 | 1196.8 |
| 22 Petroleum | 858.5 | 590.0 | 823.8 | 782.3 |
| 21 Public Utilities | 261.5 | 234.8 | 253.9 | 251.4 |
| 7 Railroad Equipment | 95.1 | 73.4 | 93.3 | 87.0 |
| 20 Railroads | 82.0 | 64.7 | 80.5 | 75.1 |
| 3 Soft Drinks | 565.7 | 459.9 | 544.8 | 513.0 |
| 12 Steel & Iron | 336.9 | 219.2 | 308.8 | 293.2 |
| 4 Sugar | 68.8 | 56.1 | 63.1 | 60.7 |
| 2 Sulphur | 964.0 | 813.2 | 868.0 | 822.3 |
| 11 Television ('27 Cl.—100) | 47.3 | 37.5 | 40.1 | 37.5L |
| 5 Textiles | 188.9 | 148.4 | 160.4 | 153.1 |
| 3 Tires & Rubber | 201.0 | 137.8 | 186.4 | 175.4 |
| 5 Tobacco | 96.7 | 81.9 | 95.7 | 92.0 |
| 2 Variety Stores | 315.0 | 278.5 | 284.3 | 278.5L |
| 15 Unclassif'd ('49 Cl.—100) | 158.3 | 141.9 | 156.8 | 155.3 |

H—New High for 1955-1956. L—New Low for 1955-1956.

# Trend of Commodities

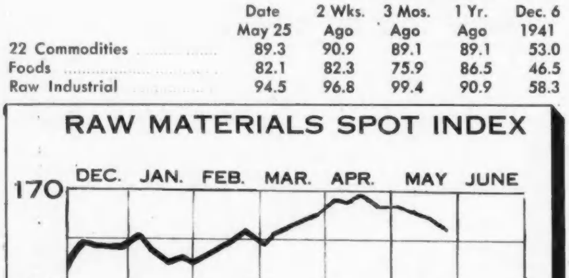
Futures markets were unsettled in the two weeks ending May 28 and most commodity options suffered substantial losses. The Dow-Jones Commodity Futures Index lost 4.24 points during the period, closing at 149.76. This was slightly under the previous low, reached in March. Congressional passage of the farm bill had apparently been discounted for the time being and had little observable effect despite the favorable long term implications of the measure. Wheat futures trended downward in the two weeks ending May 28 and the September option lost 5 cents, to close at 203. This is 16¼ cents under the year's high, reached on April 5. Harvesting is beginning in the southernmost sections of the winter wheat belt and farmers seem inclined to sell as long as prices are above the loan level. Provisions in the new farm law, applicable to wheat, include participation in the $1.2 billion soil bank benefits and authorization to increase the amount of surplus farm products that may be disposed of abroad. September corn sagged during the fortnight under review, giving up 8 cents to close at 146⅞. The weakness cropped up despite a fundamentally bullish statement by the Department of Agriculture, indicating that "free" stocks of the feed grain might be inadequate to cover requirements for the rest of this season, which ends on September 30. Of course, such a development would be averted by drawing on the large stocks under Government control. This could be effected by farmers repaying their loans, which they would do only if market prices rose sharply from their current level, which is some 30 cents under the equivalent loan value. The supply can also be raised by increased CCC sales in domestic markets.




**U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES**
**Spot Market Prices — 1947-1949, equals 100**

| | Date May 25 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| 22 Commodities | 89.3 | 90.9 | 89.1 | 89.1 | 53.0 |
| Foods | 82.1 | 82.3 | 75.9 | 86.5 | 46.5 |
| Raw Industrial | 94.5 | 96.8 | 99.4 | 90.9 | 58.3 |

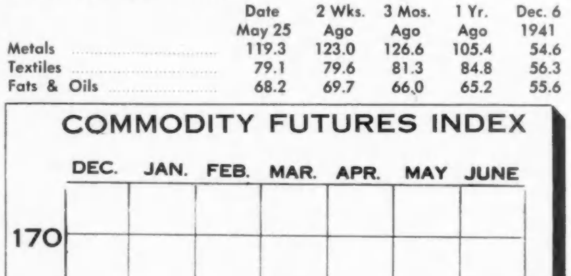
| | Date May 25 | 2 Wks. Ago | 3 Mos. Ago | 1 Yr. Ago | Dec. 6 1941 |
|---|---|---|---|---|---|
| Metals | 119.3 | 123.0 | 126.6 | 105.4 | 54.6 |
| Textiles | 79.1 | 79.6 | 81.3 | 84.8 | 56.3 |
| Fats & Oils | 68.2 | 69.7 | 66.0 | 65.2 | 55.6 |




**14 Raw Materials, 1923-25 Average equals 100**

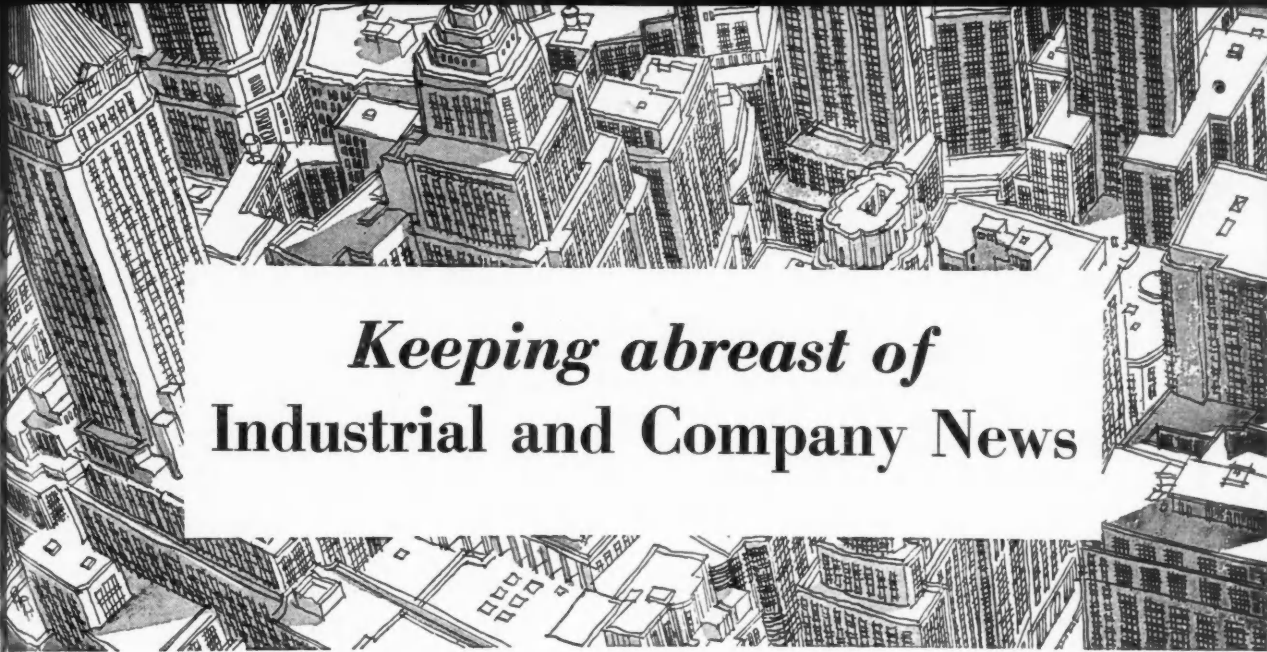
Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

| | 1956 | 1955 | 1953 | 1951 | 1945 | 1941 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 169.8 | 164.7 | 162.2 | 215.4 | 117.7 | 88.9 | 57.7 | 86.6 |
| Low | 163.1 | 153.6 | 147.9 | 176.4 | 98.6 | 58.2 | 47.3 | 54.6 |




**Average 1924-26 equals 100**

| | 1956 | 1955 | 1953 | 1951 | 1945 | 1941 | 1938 | 1937 |
|---|---|---|---|---|---|---|---|---|
| High | 156.2 | 173.6 | 166.5 | 214.5 | 95.8 | 74.3 | 65.8 | 93.8 |
| Low | 149.8 | 150.7 | 153.8 | 174.8 | 83.6 | 58.7 | 57.5 | 64.7 |



# *Keeping abreast of* Industrial and Company News

The tobacco industry is on its way to a banner year. Cigarette production for the first three months of this year was up 3% from the year-earlier period. Cigar consumption also ran ahead. The cigarette stocks have gained in favor as the medical controversy has become less prominent. There was a flurry of activity that sent these issues sharply higher one day last month. The sudden upward spurt was triggered by **Liggett & Myers**, which announced a boost of 45 cents a thousand in the wholesale price of regular and king-size Chesterfields. **American Tobacco Co.** swiftly put out the word that there would be no rise in the price of its Pall Mall, Herbert Tareyton or Lucky Strike brands. Other producers also declined to go along with L & M, so that company rescinded the rise. Tobacco stocks settled down quickly.

Cutbacks and closedowns at automotive plants have become a familiar part of the daily budget of news items. Appliances, which also are feeling the pinch, have not come in for nearly as much attention. Reinforcing the realization that nearly all consumer-durable goods have been hit hard by "the borrowed sales" of 1955 was the announcement, as May drew to a close, that a complete shutdown of operations of CBS-Columbia is being considered. This is the television and radio-set manufacturing division of Columbia Broadcasting System. Output of the division already has been slashed. Word from CBS was followed by a statement from **Avco Manufacturing Corp.** that its Crosley and Bendix home-appliance divisions plan to drop several appliances made for them by other manufacturers. Items involved are room air-conditioners, water heaters, garbage disposers and chest-type freezers. Crosley air-conditioning units are turned out by **Fedders-Quigan Corp.** under a contract which has another year to run.

Added evidence, if any were needed, that the appliance manufacturers are taking the bumps was provided by **Philco Corp.** (MAGAZINE, May 26, Page 298) which has reduced the quarterly dividend on the common stock to 20 cents from 40 cents. In trimming the payout, Philco said earnings were lower and cited the need "to conserve working capital," Philco had maintained a 40-cent quarterly rate since the first quarter of 1951. Philco also distributed 5% stock dividends in January of 1951 and December, 1953. Previously announced first-quarter earnings this year were $1,517,000, equal to 38 cents a common share, compared with $2,447,000, or 62 cents a share, in the initial period of 1955. Sales in the first quarter of this year totaled $92,476,000, or 4% below the $96,825,000 recorded in the year-ago period.

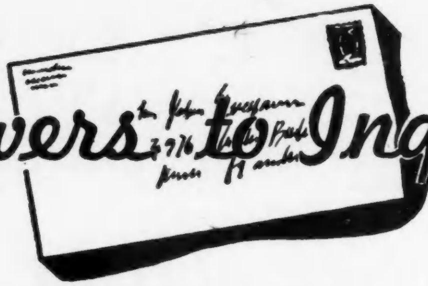
These are lean times for the makers of farm equipment. Farmers have been faced with declining income, uncertainty over legislation and adverse weather conditions. So it occasioned no surprise when **Oliver Corp.**, producer of farm equipment, turned up a net loss of $221,000 for the six months to April 30, compared with a net profit of $2,865,000 for the like period a year earlier. For this quarter to April 30, 1956, a net profit of $304,000, or 10 cents a share, was attained.

Date of the proposed sale of $250 million of **American Telephone & Telegraph** has been slated for July 10.

Uranium stocks (usually of the penny variety) long have been the subject of Government scrutiny and investment disapproval. A piece of cheering news for uranium producers finally has emerged from Washington. Buying of this ore from domestic producers is to be continued by the Government for almost five years past the deadline (March 31, 1962). But the Atomic Energy Commission will pay less and may not take all of the uranium that is offered. Under the extended program, a set price of $8 a pound will be paid. This is believed to be somewhat less than the present negotiated prices between the A. E. C. and the producers. The A. E. C. also has extended its initial production bonus for the ore from February 28, 1957 (when it was due to expire) to March 31, 1960. A bonus is paid on the first 10,000 pounds of uranium oxide in ore delivered from the mines. Bonus ranges from $1.50 to $3.50 a pound, depending on amount of uranium oxide in the ore.

(*Please turn to page* 387)

# Answers to Inquiries



The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. Give all necessary facts, but brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

### May Department Stores

*"I should very much appreciate recent information regarding May Department Stores and please indicate what prospects for the company are for the current year."*

*L. O., Lawrence, Mass.*

The May Department Stores operate 10 principal department stores, some large branches and more smaller branches. Record of the company is better-than-the-average in its industry. The company's 10 downtown department stores are located in Akron, O.; Baltimore, Md.; Denver, Colo.; Los Angeles, Calif.; Pittsburgh, Pa.; St. Louis, Mo.; Sioux City, Ia.; Youngstown, O., and Cleveland, O. It also operates 20 branch department stores and a shopping center.

For the fiscal year ended January 31, 1956 consolidated net sales totaled $494,366,000, an increase of 11% or $49,995,000 greater than in the year ended January 31, 1955. Net earnings rose to $19,457,000 from $16,996,000 and, after deducting preferred dividends, were equal to $3.10 per common share, against $2.70 per share in the preceding year.

Sales have continued to rise since the end of the fiscal year. Sales for three months ended April 30 totaled $108,722,000 or 9.3% higher than the $99,508,000 in the corresponding period of last year.

Two principal factors contributing to the rise in sales were a general increase in consumer purchasing and the completion during the year of three new branch stores and a large addition to Kaufman's in downtown Pittsburgh. These projects added 1,108,000 square feet to the company's total store space. Plans are going forward for the construction of four new projects. These include a company-owned shopping center now under construction in West Covina, Calif., which will include a branch of the Los Angeles store; another branch of the Los Angeles store to be built in the South Bay shopping center in Redondo Beach, Calif., which will be started next year, a branch of the May Company store in Cleveland, which will be started in June, and a branch of the May Company in Denver, which is still in the planning stage.

The company's downtown stores follow a policy of continuous modernization, directed at increasing sales by preventing obsolescence, improving efficiency and expanding sales space.

Current quarterly dividend of 55 cents per share provides a satisfactory income return. Prospects over coming months continue favorable.

### International Shoe Co.

*"As I have not seen a review of International Shoe Co. in recent months in your publication, I would appreciate your furnishing late information on this company."*

*N. J., New Haven, Conn.*

International Shoe Co. is the largest domestic manufacturer of shoes. Recent acquisitions have increased the sales base. Consumer demand is holding up well and operating margins appear satisfactory. The steady increase in population offers expansion sales possibilities. Sales have shown a steady although moderate increase in recent years and the dividend yield on the $2.40 annual rate is excellent.

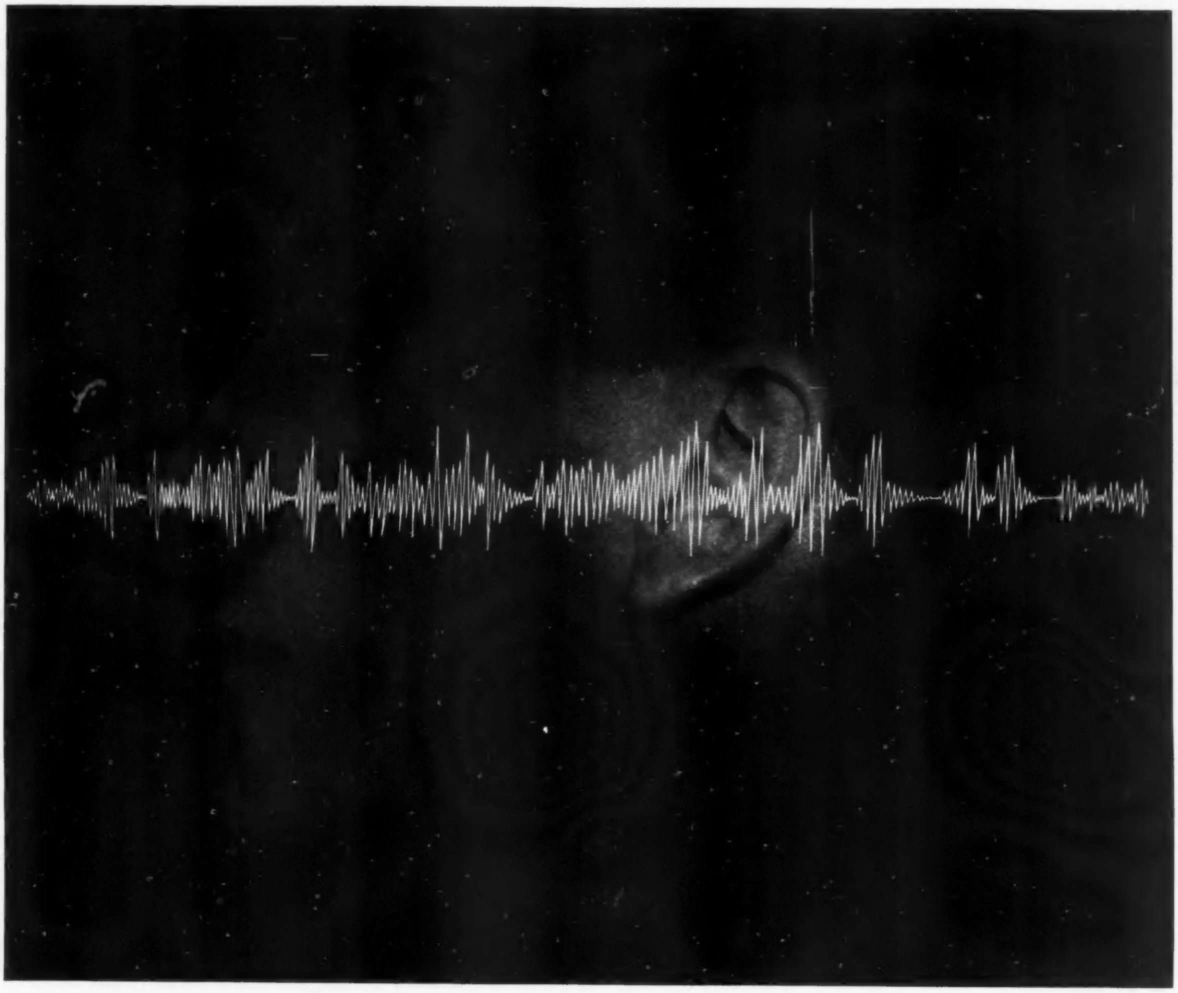
Net earnings after taxes of International Shoe and subsidiaries totaled $10,414,006 for the fiscal year ended November 30, 1955, a slight gain over the prior year. Net income after taxes was $21,847,252, compared with $21,659,431 in 1954.

Consolidated net sales of $262,413,803 were the largest in the company's history. This was a gain of $15,649,253 or 6% more than the previous year, when net sales totaled $246,764,550. Net income per share of common stock amounted to $3.10 compared with $3.01 in the preceding year. Dividends have been paid consecutively for 43 years.

Production of the company's shoe plants reached 52.3 million pairs in 1955, compared with 50.8 million in the preceding year.

The year's total net sales and shoe production were affected by a month-long strike of the parent company's shoe workers which began November 7, 1955. About three-fourths of parent company's shoe plants were closed on that date, and did not reopen until December 5. The estimated loss of production amounted to 2,250,000 pairs of shoes and shipments for the year were reduced approximately $5 million. The com-

(*Please turn to page* 388)

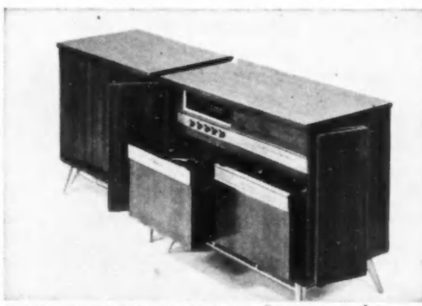


## Listen . . . RCA brings your ear every sound it can hear with new high fidelity

Ever since Caruso's voice first thrilled Americans in their homes, RCA has pioneered the search for new worlds of sound. Thus RCA is now able to present the ultimate in high fidelity—New Orthophonic "Victrola" phonographs that reproduce more recorded sound than your ear could ever hear before.

These instruments have been made possible by RCA's experience, skill—and the tremendous facilities of the David Sarnoff Research Center at Princeton, N. J. Constant improvement has been sought — and found — on every phase of musical reproduction, from the microphone over the conductor's head to the "Victrola" phonograph at your elbow.

The same leadership that brings you New Orthophonic High Fidelity instruments is behind all RCA products—all conceived through "Electronics for Living" that make life easier, happier, safer.



**TWIN CONSOLE "MARK I."** In one cabinet: "Victrola" 3-speed phonograph, tape recorder, AM-FM radio. In the other: four matched high fidelity speakers. Model 6HF1. $1600.

RCA®

**RADIO CORPORATION OF AMERICA**

**ELECTRONICS FOR LIVING**

## 1956 Outlook for Electric Utilities

(*Continued from page* 355)

such as the following: (1) Residential business should continue to gain in any moderate depression, declines only being registered in a deep depression such as of that of 1929-32. (2) While industrial kwh sales are naturally affected by business downturns, the "demand" component of the rate schedule retards the drop in revenues. (3) Federal income taxes absorb 52% of any decline in net income. (4) Most utilities would probably defer sales of additional common stock during a depression, thus increasing common stock leverage moderately. (5) If the rate of return on the rate base drops well below 6%, rate increases are theoretically available – although politically it is much easier to get these approved during prosperity than during depression.

Electric output doubles about every ten years on the average. During the past decade it increased from 223 billion kwh to 546 billion, a gain of 145% – but this rate of increase was probably abnormal. It appears likely that output will pass the trillion kwh mark by 1965 even if there are moderate setbacks in business along the way. Can this growth be converted into higher share earnings and dividends as in the past? There seems to be no good reason why it can't, at least by progressive and well-managed utilities – and more particularly by the growth utilities.

### Increasing Operating Efficiency

There are a number of reasons for this. So long as they continue to grow, the utilities will continue to add new generating equipment, which is constantly increasing in efficiency. Thus the utilities will continue, as in the past, to reduce the weight of coal and the number of man-hours needed to produce kilowatt-hours. The utilities are also rapidly introducing electronic machines to take over bookkeeping and engineering chores. Ohio Edison has installed an electronic differential analyzer which can select the most efficient of the system's generating units, and control their operations at all times by manipulating the throttles of the generators through impulses carried over telephone circuits to the power plants over a wide area. Most utilities do this through a central manual dispatching system, but a machine can do the work much faster and more accurately than can the human dispatcher. Bi-monthly billing of customers is taking the place of monthly billing, and similar savings are being continually introduced. As an indication, the total wage bill last year went up less than 3% despite an increase in output of 15% and the usual round of increases in wage rates.

What about inflationary trends in the cost of fuel and materials? It is true that the price of copper has advanced sharply in recent years but thus far this does not appear to have had disastrous results on operations, although it may be reflected in the cost of new construction. The prices of coal, oil and gas have been trending higher, particularly natural gas in the south where it is used as boiler fuel in Texas and some other areas, but so far this has not hurt net earnings appreciably. Of course any real inflation might check the improvement in utility earnings, but the Federal Reserve Board at Washington has recently indicated that it will continue to fight inflation with every means at its command. Moreover, the Board being semi-independent can largely ignore political influences.

What about the regulatory picture? If the utilities are only supposed to earn 6% on their rate base, how can they continue to improve share earnings year after year? The answer to the latter question is simple – reinvested earnings work for the benefit of stockholders. The average operating utility pays out only about three-quarters of the earnings available for common stock – in the case of most holding companies about 65%. The remaining earnings are put to work in the rate base and automatically produce additional earnings per share as well as occasional dividend increases.

### Improved Equity Ratios

This system now works better than a few years ago because of the fact that dilution of share earnings through sales of additional stock are occurring less and less frequently for many utilities. During the early 1940's, when perhaps one hundred-odd operating utilities were gradually being released into the hands of the public through the break-up of holding company systems, many of them had very low equity ratios due to the balance sheet "purges" imposed by the SEC as the penalty for earlier holding company sins. Hence in the past decade many of these companies have had to issue common stock more frequently than would otherwise have been necessary, in order to build up their equity ratios. This acted as a drag on the increase in share earnings.

Now most of these companies have about reached their goal, with equity ratios around 35-40%, compared with about 40-50% for the old line independent companies such as Consolidated Edison, Commonwealth, Boston Edison, etc. With this goal achieved many of them have been able to raise their bond ratings and do their senior financing on a more satisfactory basis. Hence equity financing will now be less frequent, and some companies have publicly stated that they won't need to issue any more common stock for several years.

Another favorable factor in connection with the finance program is the increase in *cash flow* as compared with reported earnings. Under special Federal legislation many utilities are permitted to use accelerated (5-year) amortization of so-called new defense plan, and last year the savings in Federal income taxes resulting from this factor amounted to $94 million. More recently, under the new 1954 Tax Code, Congress has permitted accelerated depreciation on *all* new construction (except, of course, where 5-year amortization is applicable). While there has been some delay in adopting the new accounting methods, which are rather technical, many companies are now accruing depreciation for tax purposes on this basis, with resulting cash savings.

With very few exceptions utilities are continuing to report depreciation in their reports to stockholders on a normal "straight line" basis. The tax savings which result from reporting larger depreciation in their tax returns are also normalized by including a special bookkeeping charge for "deferred" taxes. Thus for most

(*Please turn to page* 374)

## 1956 Outlook for Electric Utilities

(*Continued from page* 372)

companies the new cash savings are not reflected in increased share earnings. They do, however, furnish additional "internal cash," added to that which is normally generated through depreciation, amortization and retained earnings. In the past this normal cash flow has paid for about one-third of all new construction work, with new securities raised for the remaining two-thirds. Now with larger cash flow, construction can be financed with a lower proportion of new securities. Another factor is that the utilities are now making greater use of bank loans than in past years. Thus the heavy financing of past years, particularly that in common stocks, is now being eased.

The utilities have also accomplished another post-war objective, obtaining an adequate reserve of generating capacity. During the war, when labor and materials were scarce and financing somewhat difficult, most of them limped along with small reserves and sometimes it was even necessary to reduce voltage in order to meet customers' peak needs. But now there is an average 18% reserve of capability over annual peak load. Moreover, pooling of power has broadened territorially, which should permit smaller individual reserves. Hence, from now on the construction program need merely keep pace with new growth and not provide for increased reserves, as was the case during the past decade. This is another reason why the financial program will be easier over the next decade than it was in the past.

### Vying with Rate-Makers

The problems of politics and regulation remain. There has been no substantial change so far as the Federal Government is concerned in the past year, but there are some cross-currents among the states. Regulation in some of the states where it used to be over-severe, such as New York, New Jersey and California, has improved moderately in recent years. Pennsylvania's policy became more liberal during the Republican regime but is now turning leftward again with a Democratic administration and a divided legislature – as indicated by the recent Metropolitan Edison rate reduction. The regulatory climate in Illinois and Florida remains excellent as compared with earlier periods. Conditions in New England have softened somewhat.

During 1955-6, it is true, there have been several adverse developments. The commission and courts in Arkansas have treated Arkansas Power & Light (Middle South Utilities subsidiary) shabbily, denying a rate increase which the company had assumed to be fully in line with past commission policy. Public Service of Indiana was also denied a rate increase, but later a favorable court decision restored part of the requested amount, subject to some delay in application. Kansas City Power & Light obtained a $4 million rate increase and Kansas Power & Light was permitted to raise gas rates nearly $1 million. Central Illinois Light obtained a $1.5 million electric rate increase. Gulf States Utilities lowered its rates $1.3 million, probably voluntarily.

At the present time there is very little rate litigation in progress. Most utilities are earning 5½-6% on original cost; and some, in favored states such as Pennsylvania and Ohio (where the rate base recognizes fair value) are able to earn 7% or more if the calculation is based on original cost. In Texas returns are usually quite liberal because there is no state commission and state law mentions an 8% upper limit. In general, therefore, regulation appears to be on an even keel with losses in some states balanced by gains in others. It is necessary of course, for investors to study each individual company and its relations with the regulatory agencies.

### Challenge of the Atom

Is there any future menace to the utilities from the competition of atomic reactors, solar energy, etc.? Certainly there does not appear to be any such danger at the present time. After long delays the Atomic Energy Commission recently permitted two companies, Consolidated Edison and Commonwealth Edison, to proceed with their plans to build reactors. The plans will take over four years to complete and in the meantime it is hoped that safety factors can be checked and double-checked so that operating licenses will be forthcoming from the Commission.

In the past year or so there has been a considerable scare over "radiation hazards" due to happenings in the Pacific with our bomb tests, etc. These dangers have been greatly exaggerated but the Commission and Congress have to recognize the popular apprehension. Also there have been one or two accidents in experimental reactors which, while causing no deaths, nevertheless pointed up the hazards which might result from a reactor getting out of control. No explosion similar to a bomb explosion seems possible but if an accident should release a radioactive cloud over populated centers, and if any percentage of the population were potentially affected, the utility company would be subject to enormous claims for damage.

Thus both the Commission and the utilities have hesitated to go ahead without adequate insurance even though the chance of such an event are perhaps one in a million. However, the insurance companies as a group have agreed to furnish about $65 million insurance for each utility company, and it is hoped that the Federal Government will also guarantee the companies against loss up to perhaps $500,000,000. When this is done it should expedite the whole program. Doubtless the AEC will then authorize other large projects new being planned.

The new atomic reactors will not provide dangerous competition for existing fuel-burning plants. The efficiency of steam generating plants is constantly being improved and the atomic plants will do well to catch up with them over the next five or six years. Commonwealth Edison thinks that its atomic plant will be able to compete with modern fuel-burning plants but there is some skepticism in other quarters. In any event, the new atomic plants will be dovetailed into the construction program gradually. There is no danger that they will "take over" the whole show and penalize laggard utilities.

Only real danger seems to be in perfection of atomic fusion.

This means a fusion of molecules of light elements, as exemplified in the hydrogen bomb, instead of the fission of heavy elements as in the earlier atomic bombs. The great problem in triggering the fusion process is to obtain a starting temperature of a million degrees heat or over. Until scientists can do this (without burning up their instruments) this process will not be available. If it is finally obtained, it will doubtless be very expensive to operate initially for the amount of power obtained – though it will have the advantage over atomic power in not having dangerous radioactive by-products.

### Solar Energy Prospects

Solar energy has also been in the limelight during the past year, and a world convention was held in Arizona with delegates from many countries. Arizòna Public Service participated and other utilities showed some interest. The general opinion seems to be, however, that solar energy can never compete with electricity in this country, although it might in a few tropical areas where fuel costs are extremely high. However, solar energy might conceivably be used here as an aid to air-conditioning or the heat pump.

Summarizing, most electric utilities are now cheaper in relation to earnings and dividends than they have been over the past year or more. Yields of 5½ and 6% are becoming more common (New England Electric, Niagara Mohawk Power, etc.). Price-earnings ratios are now more reasonable since earnings have gone up while prices stayed level. Only the small group of outstanding growth stocks seem a little high based on the usual yardsticks. But institutional investors and others who are satisfied with lower yields still seem interested in accumulating these issues, with the expectation of obtaining capital gains as future prices over a period of time reflect higher earnings. —END



## Borg-Warner: A Study in Growth and Diversity

(*Continued from page* 358)

systems and crane runways. B-W manufacturing facilities will be used to expand production of the newly-acquired company. Due to a large backlog of orders and a steadily increasing demand for cranes, especially in heavier types, Industrial Crane's facilities have been pushed to capacity levels. The cash resources of B-W, which are substantial, are calculated to provide adequate working capital for increased business volume.

### Growth In Facilities

B-W productive facilities have undergone considerable growth. In 1952, the company had 30 plants, including three specialty steel mills. The count today stands at 45, with an additional three under construction. Among those being built is one at Letchworth, England, which is scheduled to go into production next month. It will manufacture automatic transmissions, semi-automatic overdrives and other components for the British automotive industry.

B-W is building near Parkersburg, W. Va., a chemical-plastics plant at an estimated cost of $10 million. An electronics plant and laboratory are going up at Santa Ana, Cal.

The company, obviously, has many irons in the economic fires and is betting heavily on an era of prosperity.

#### Money From Miscellany

B-W has a score of other stakes. Notable are its aviation equipment, which brought in about $27 million last year (peak, set in 1953, was $41,756,000); its household utilities, such as sinks, bathtubs, water closets and louvered-type sun screens, which accounted for about 3% of 1955 sales, and miscellaneous products, such as saws, machine knives, earth-moving machinery and like goods, which toted up to more than 16% of the whole.

Top officials of the company (average age of operating management is only 49 years) have always placed great emphasis on research. Expenditures for research last year ran to about $5 million and will be about the same this year. The company plans a new laboratory at Des Plaines, Ill., which will have facilities for varied research, including electronic, metallurgical, electrical, chemical, acoustical, applied mechanical, hydraulic and nuclear.

While the company may be expected to take the bumps over the near term, due to its overwhelming interest in consumer-durable goods which have been slipping this year, there is no lack of optimism at B-W. In the 28 years since its formation, the company has shown an impressive record of growth in earnings and assets. Dividends have been paid in each year and profits have been earned in every year, except for the minor losses sustained in 1932 and 1938.

A measure of this optimism was provided at a meeting of the board on March 2. It already was evident that the automotive and appliance businesses were in for a slump, yet the directors raised the quarterly dividend rate to 60 cents from 50 cents.

The 60-cent rate was maintained at the May 25 meeting. This latest dividend on the common is payable August 1, to stockholders of record July 11.

Thanks to its large measure of diversification, sales and earnings in the first three months of this year were the second highest first-quarter sales and earnings in the history of the company.

Sales were 6.6% lower and earnings (after taxes) were 9.4% lower than the initial quarter of 1955, which was, by far, the best first three months in the annals of B-W. Sales in that quarter were increased by 41.8% and earnings were upped by 83% from the first quarter of 1954. Results in the opening quarter of 1956 still greatly exceed those of all preceding years, 1955 excepted.

A slackening in sales of four important industries served by B-W was responsible for the decrease in sales volume and income. The homebuilding industry, for one, sustained a sizable decline in housing starts. Curtailed purchasing by farmers was reflected in decreased sales of farm equipment. The setback to automotive and appliance products is too well known to need further elaboration.

#### The Appliance Cutback

In mid-May, Norge disclosed it was curtailing production of its appliances to meet what it called "fluctuating dealers' and distributors' demands." The extent of the cutback was not given. While sales to dealers for the first quarter of this year set a record for any three-month period at Norge,

movement to consumers has lagged considerably.

The next six months should throw a brighter light on the extent of the lull.

As for the automotive industry, B-W should derive considerable benefits from the replacement market, although there is small likelihood of any return in the near future to the dizzy production pace in the new-car field that characterized 1955.

**From Investor's Viewpoint**

For 1956, B-W should have a reasonably good year. Sound management, excellent research and continuing diversification should combine to cushion the blow to its automotive-supply, household appliance and farm-equipment segments.

However, the current year is not calculated to approach the lofty level of 1955, when sales soared out of sight—to $552,192,000 from $380,317,000 in 1954. Net profit also was at a record peak in 1955, hitting $41,076,000, equal to $5.17 a common share. This compares with 1954 net of $24,460,000, or $3.27 a share.

For the initial quarter of 1956, net sales amounted to $136,512,000, down from the $146,158,000 reported for the first three months of boom '55. Net slipped in the first quarter of this year to $8,653,000, or $1.08 a share, from the $9,555,000, or $1.21 a share, registered in the like period of 1955.

Indications are that sales of B-W continue to be somewhat curtailed during the present quarter, which ends this month. The company, however, is optimistic that this year will be second only to 1955 in the matter of earnings and sales.

Selling around 44½ in recent days and providing an indicated yield of 5.4%, based on the 60-cent quarterly rate, the return is liberal for this good-grade issue. Holders would be warranted in retaining the stock as a long-term investment.

Borg-Warner has shown itself to be a smart and progressive organization, yet new commitments should be deferred in view of the unsettlement in the stock market.






## What 1955 Balance Sheets Reveal

(*Continued from page* 360)

research and engineering development. It is calculated that corporations invested $24.2 billion in plant and equipment last year. Adding the $7.8 billion increase in net working capital makes a total of $32 billion for expansion in 1955. Of this total, corporations financed approximately $24 billion from retained earnings and depreciation, with external financing consisting of $6.1 billion through long-term borrowings and $1.9 billion through net new stock issues.

At 1955 year-end, total current assets had increased to $206.6 billion as compared with $187.3 billion of total current assets at the close of 1954. On the other side of the ledger, total current liabilities, as of December 31, 1955 amounted to $103 billion, up by $11.5 billion from a year ago as compared with a $19.4 billion gain to total current assets for 1955.

On the basis of these figures the net gain in net working capital amounted to $7.8 billion. This increase was exceeded only by the record $9.3 billion gain in the year 1950, and brought net working capital at the close of 1955 to a record high of $103.6 billion.

### Corporate Liquidity

With but a few exceptions the principal components of working capital at that time were at new levels. A break-down of the major components of net working capital reveals that between the 1954 and 1955 year-ends, holdings of cash and United States Government securities increased from $51 billion to $55.6 billion, a gain of $4.6 billion. Over the same period, notes and accounts receivable increased to $76 billion, this being higher by $9.8 billion over the 1954 year-end total. Inventories also were higher, increasing from $65.1 billion to $69.8 billion, a rise of $4.6 billion with more than half of the latter sum representing inventories increase in the manufacturing group in the final 1955 quarter. Composite figures also disclose an increase in Federal income tax liabilities. These amounted to $18.5 billion or $2.8 billion more than was payable at the close of 1954, notwithstanding the fact that some corporations had made payments on 1955 Federal income tax before the close of the year under the current accelerated tax payment program.

With the increase in trade notes and amounts receivable, higher inventories, and the expansion in notes and accounts payable, corporate liquidity, measured by the ratio of cash and U. S. Government securities to current liabilities, was slightly lower at the end of 1955. Liquidity dipped from 56 per cent a year ago to 54 per cent. That there was a slight decline in this respect was not an extraordinary development considering the record volume of dollar sales throughout the entire year. Another factor contributing to the inventories increase was the higher cost of raw materials in many instances as well as increased value put upon finished or semi-finished goods as a result of higher labor and other operating costs. Inventories rose appreciably in the final quarter in some, but not all, industries as business developed a tendency to level off or declined in activity after reaching a high plateau in October of last year. At that, increases in certain areas of demand offset declines in others, the net gains being factors in pulling gross national product in the final quarter up to about $398 billion. Although inventories were up by $4.7 billion at the close of the year, they were not much higher in relation to sales than a year ago.

All of these figures are more or less generalizations, indicating an overall trend which, of course, is likely to be at great variance with the 1955 experience of corporations in various fields. More specific information regarding changes in the components of balance sheets and totals can only be obtained by a study of individual company financial statements. In this connection, the accompanying tabulation of major components of 1955 balance sheets of 24 corporations represents to a degree a cross-section of the changes that took place in that year in net working capital, inventories, total assets, liquidity and long-term debt, if any.

Supplementing the tabulation are the following brief comments on a number of companies shown therein which should aid the reader to interpret the changes in balance sheet items that took place between the 1954 and last year's close.

*Allegheny Ludlum Steel Corp.*—Cash and U. S. Government securities at 1955 year-end totaled $23.6 million, an increase of $14.9 million during the year. Increases in accounts and inventories reflect the increase in 1955 sales volume amounting to $255.2 million which exceeded previous year's sales by $85.6 million. In addition to normal depreciation, depletion and plant retirement allowances of slightly in excess of $4 million, accelerated amortization on new plant facilities during the year amounted to a little more than $7 million.

*American Cyanamid Co.*—At 1955 year-end working capital had increased to $195.1 million from $184.6 million at December 31, 1954. Over the same period, Cyanamid achieved a notable increase in cash and U. S. Government and other short-term notes totaling $163.1 million, up from $141.5 million. During last year, long-term indebtedness was reduced from $110.9 million to $94.7

million. Although 1955 sales of $451 million exceeded the previous year's volume by $53.5 million, inventories at $72.5 million increased by only $400,000 over those of a year ago while accounts receivable at $49.1 million were only up $1.5 million.

*Caterpillar Tractor Co.*—Highlighting the 1955 balance sheet is the decrease in net working capital to $93.6 million from $105.9 million a year ago. This decline, however, was brought about primarily by the transfer of the company's obligation for $17,056,000 10-year 2% debentures that came due May 1, 1956, to current liabilities. With this transfer long-term debt was reduced from $52.1 million to $35 million and while cash in 1955 increased from $8.7 million to $10.8 million the transfer brought the ratio of cash to current liabilities down from 25% to 10%.

*Continental Can Co.*—Expenditures in 1955 for capital improvements amounted to $24.4 million. Anticipating continuing demand for funds for further capital improvements it sold $25 million 3¾% 40-year notes to private investing institutions, and exchanged $39.5 million of its Sinking Fund Debentures due in 1965, for a like amount of 40-year debentures to mature in 1995. Largely as a result of the borrowing of $25 million on 40-year notes last year, working capital in 1955 increased from $82.3 million to $110.8 million. Cash increased during the same period from $17.7 million to $30.2 million while bank loans amounting to $17.6 million at 1954 year-end were reduced to $1.9 million.

*Grace (W. R.) & Co.*—During 1955 current assets were increased from $187.5 million to $214.1 million, a gain of $26.6 million. At the same time, current liabilities amounting to $75.3 million at 1954 year-end increased to $84.3 million, up by $9 million of which $8 million was accounted for by the increase in accounts and acceptances payable from $42.1 million to slightly more than $50 million. The company, in 1955, sold $30 million 3½% convertible debentures. About $12.5 million of these funds were used to retire consolidated long-term debt. Holdings of cash, U. S. Government and other marketable securities totaled $82.8 million, a sum that was short by $1.5 million of being equal to all of cur-

rent liabilities.

*National Cash Register Co.*—During 1955 investment in capital improvements totaled $14.3 million. Plans provide for 1956 expenditures of an additional $18 million for similar purposes. To help finance increases in manufacturing facilities and provide additional working capital NCR borrowed $10 million from an institutional lender last year. At the year's end, its total of cash $17.9 million and U. S. Government securities of $8.2 million was $26.2 million as compared with 1954 year-end combined total of $14.4 million. Although sales were at a record high of $301.2 million, or $42.1 million greater than in the previous year, inventories of $52.2 million were about $1.5 million less. Receivables of $50.6 compared with $39.2 million at the close of the previosu year.

*Union Carbide & Carbon Co.*—Last year approximately $102.4 million was invested for the construction of new facilities. Against this sum the company's cash flow from depreciation and amortization, together with retained earnings for the year amounted to $159.8 million. Cash and U. S. Government and other marketable securities of $301.7 million exceeded total current liabilities by $72.7 million and ratio of total current assets to total current liabilities was 2.9-to-1. —END

## American Capital in Canada —and Canadian Plants in U.S.A.

(*Continued from page* 349)

"Canada's International Investment Position 1926-54" disclosed the salient facts, some of which are summarized in the acompanying table.

### Growing U. S. Role

In 1926, Canada controlled some 65% of its manufacturing industries; in 1953 the percentage was down to 53% and may be even lower today. In 1926, Canada controlled 62% of its mining; in 1953 only 43% of this most dynamic industry was Canadian-controlled. Foreign investment in the petroleum industry has grown in the eight years since 1945 from $126 million to $1.19 billion. At the end of '53 Americans controlled some 68% of this vital industry and Canadians 30%. But Canadian investment in petroleum had been built up to $850 million (41% of all invested capital), a remarkable feat in such a short time. Other predominantly American - controlled industries were: Electrical appliances, motor vehicles, rubber and chemicals.

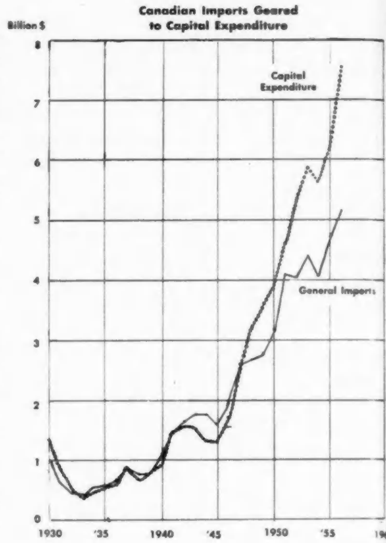
On the other hand, Canadians have kept or increased their holdings in the pulp and paper industry, which originally was predominantly American-owned, and the textile, iron and steel, beverages, and agricultural-machinery industries as well as in merchandising and utilities. The textile industry is not doing very well, however, and Canadian steel mills, although expanding, are still unable to supply many special types of steel.

Canadians contend that many companies that were founded as branches of foreign corporations are reluctant to permit local participation in ownership and top management. They also claim that there has been a noticeable reduction in the number of companies whose securities are available to Canadian because Americans have bought out many companies which were domestically owned or in which Canadians held minority interest.

### Americans Provided Risk Capital

There is no doubt that some of the complaints are justified. It is true that the Canadian economy has generated in recent years most of the capital necessary for developing the country. But, as a rule, Canadians have been cautious investors, preferring mortgages, bonds and life-insurance premiums. They have even repatriated a considerable proportion of Canadian bonds held abroad.

All this boils down to the fact that there has simply not been sufficient capital available in Canada willing to "risk a buck to make a buck"—to invest relatively huge amounts in the development of mines, oilfields, and other projects and wait perhaps several years before any profits would be possible. As the External Affairs Minister, Lester B. Pearson, pointed out recently: "The unprecedented development of Canada could not have taken place in the way and in the time it has, without outside participation."




***Data for Chart***

**Canada: Imports Geared to Capital Expenditures**

**(In billions of dollars)**

| | Capital Expendit. | Imports |
|---|---|---|
| 1930 | 1.29 | 1.01 |
| 1931 | .88 | .62 |
| 1932 | .49 | .45 |
| 1933 | .33 | .40 |
| 1934 | .42 | .51 |
| 1935 | .51 | .55 |
| 1936 | .59 | .64 |
| 1937 | .83 | .81 |
| 1938 | .77 | .68 |
| 1939 | .77 | .75 |
| 1940 | 1.00 | 1.08 |
| 1941 | 1.46 | 1.45 |
| 1942 | 1.54 | 1.64 |
| 1943 | 1.49 | 1.74 |
| 1944 | 1.31 | 1.76 |
| 1945 | 1.28 | 1.59 |
| 1946 | 1.70 | 1.93 |
| 1947 | 2.49 | 2.57 |
| 1948 | 3.18 | 2.64 |
| 1949 | 3.50 | 2.76 |
| 1950 | 3.82 | 3.17 |
| 1951 | 4.58 | 4.09 |
| 1952 | 5.29 | 4.03 |
| 1953 | 5.84 | 4.38 |
| 1954 | 5.62 | 4.09 |
| 1955 | 6.23 | 4.71 |
| 1956 | 7.53—a | 5.25—b |

a—Preliminary.
b—Annual rate based on the first.

By investing in the dynamic industries, American capital has not only contributed to increasing employment but also has built up Canada's foreign exchange earning capacity and strengthened her international payments.

For example, iron ore exports, which were almost non-existent before American capital helped develop the huge deposits in Que-

bec—Labrador and Western Ontario, now bring in almost $100 million a year in foreign exchange. The development of petroleum is at present saving Canada some $300 million in imports and transportation charges.

### Canada's Economic Maturity

As has already been pointed out, there is no official hostility to American capital in Canada. In fact, the provincial governments, which have direct responsibility for industrial development, have been eager to persuade American companies to establish plants within their borders. They feel there is nothing unpatriotic in these efforts.

The debate on the role of foreign capital is an internal affair. Canada must decide whether it prefers rapid development with the aid of American capital or slower development with Canadian capital only. On the other hand, the time has come for American capital to realize that Canada is not "a banana republic" but an economically and financially mature country. Now that they have paid off or bought back foreign holdings of their bonds, Canadians are taking a look at foreign corporate holdings. They want the opportunity to repatriate such securities. Whether or not they will actually do so, in view of their preference for fixed-income securities, is immaterial.

If American corporations want to get rooted in Canada and are wise, they will not deny Canadians this opportunity. There is no other sound basis for foreign investment except letting local capital participate in the development of local resources. Many American companies, including Ford of Canada, Imperial Oil (Standard Oil of N. J.) and du Pont, already have recognized the advisability of Canadian-American partnership. END

## New Government Tactics to Stem Trend to Bigness

(*Continued from page* 343)

pany entering into a consent agreement to avoid an all-out fight against a Government petition that called for more severe penalties.

Head of the antitrust division of the Justice Department is Stanley N. Barnes, who practiced law for 20 years before assuming his Government post in 1953 with the advent of the Eisenhower Administration. He also served on the bench in California as an appointee of Governor Earl Warren, now Chief Justice of the United States. Mr. Barnes is expected to leave his present post for a Federal judgeship this summer. His passing from the Administration will stir no regrets in big-business circles.

Mr. Barnes (incidentally, he's a Republican) insists, nevertheless, that he has "nothing against big business." It is his contention that his department merely is enforcing the antitrust laws. He twits fellow-Republicans by asserting: "A lot of Republicans thought that with this Administration many antitrust laws would die from lack of vigor." He makes Democrats even less happy by adding: "I think the Democrat charge that Republicans favor big business is best answered by the vigor with which we have enforced the antitrust laws."

That Mr. Barnes expects no diminution of the vigor of the fight even after he has gone from the scene is apparent from the plea of his department to Congress for increased funds. Mr. Barnes has asked Congress for $4,265,000 for fiscal 1957. This compares with $3.1 million plus a supplemental appropriation of $202,500 in fiscal 1956 and $3.1 million in fiscal 1955.

### The Democratic Influence

Of course, the department is not staffed exclusively with Republicans—far from it. Of the top nine attorneys (the department employs well over 200) who serve as assistants to Mr. Barnes, seven are appointees of the Roosevelt-Truman days. Thus, while Mr. Barnes is in command, there is no question that the men around him often pose a challenge that apparently influences his policy.

There is no doubt that Mr. Barnes is sincere when he says the antitrust law is "a prime tenet of free enterprise" and initiates action against what he believes are hard-core antitrust violations. There is, however, considerable difference of opinion on his approach to the problem.

Thus, if the prime purpose of the antitrust statutes is to serve the interests of the public, it is difficult to follow the reasoning behind the requirement that A. T. & T. give up possession of innumerable patents that were developed at prohibitive cost.

That company spends over $100 million annually for research. It labors for a quarter century to develop an item such as the transitor, an indispensable device in the electronics industry. It brings down the price to 90 cents from $30 over a period of four years. It spends additional millions of dollars educating small producers on uses of such new devices.

Under these circumstances, requiring the company to share its patents with small producers seems hard to take. It could easily discourage lesser companies from making the huge investment that Telephone has in its Bell Laboratories. Even small companies have greeted this Justice Department victory with restraint. Thus, Beckman Instruments, a West Coast producer of electronic instruments, is deeply concerned. A. O. Beckman, president, sees little immediate effect since his company already is licensed by Telephone and royalties are so low that there would be only negligible savings by making the license free.

Beckman voices the feeling of hundreds of small companies when it says that it would prefer to pay royalties, with the assurance that the patent system would continue, than to see incentive diminish because neither the inventor nor his company could reap the financial benefits of exclusive use of the patents. The little fellows simply don't have the resources or organization for large-scale research.

### Shooting at G.M.

Mr. Barnes repeatedly has made it clear that he is concerned over the growing share of the automotive market held by the top three companies—General Motors, Ford Motor Co. and Chrysler Corp. In 1949, this trio produced more than 85% of the cars in this country, while the so-called independents turned out the balance. Not only has the share of the independents shrunk in the intervening years (to around 5%), but in order to survive, Nash-Kelvinator had to merge with Hudson, forming American

Motors, and Studebaker had to make common cause with Packard (the new company now is fighting for its corporate life). Kaiser is only a negligible factor.

While the public may find it difficult to follow the reasoning behind actions in such fields as telecommunications, can manufacture (consent decrees from American Can and Continental Can), glass manufacture (Hartford Empire Co.) and shoe manufacture (United Shoe Machinery and General Shoe), the automotive industry offers (or seems to) few mysteries,

The people know, for instance, that 1955 was the year of the biggest boom in automobile sales. They also know that G. M. made more than a billion dollars (after taxes), an achievement never before attained by any company. They also know that Ford had a banner year and Chrysler made a stunning comeback. Amidst all this, they have noted the floundering of the independents in the industry, who were writing red ink.

Mr. Barnes has made no secret of the fact that he would welcome a breakup of GM—say, the spinoff of General Motors Acceptance Corp., which finances retail sales of GM products, or one of the automotive divisions, such as Oldsmobile.

In a field, such as automotive, where the leading trio literally engages in brawling competition, it is not easy to make out a case against a monopolistic GM. By alluding to the three leaders as the dominant force in the industry, Mr. Barnes would seem to be bent on fighting an oligopoly.

### To Sue Or Not to Sue

There is (or was) considerable sentiment within the Justice Department for going into court with a plea that would call for GM to dispose of its bus-making facilities.

Mr. Barnes, however, would appear to be hopeful that GM can be "needled" into doing something on its own to obviate the need for Government action. He has said that a breakup of GM is inevitable—the only question being whether this Administration, another regime or the company itself will do the job.

GM, of course, is not unaware that one company after another has accepted a settlement, with varying punitive degrees. It is a large-size chore to find a single victory for the corporate defendant.

### Congress Eyes Mergers

There is considerable sentiment within the Congress, largely on the Democratic side, to check what Senator John J. Sparkman has called a "dangerous trend toward economic concentration" through mergers. The Alabaman, who was the Democratic candidate for Vice-President in 1952, wants the merger trend halted "to preserve our nation's traditional system of free and competitive private enterprise." Hearings have been held in recent days by the Senate Small Business Committee on three pending bills to strengthen the antitrust statutes. There is considerable support for a type of legislation that would require companies planning a merger to give prior notice to the Government, which would then be in a position to forbid such a consolidation.

While not every merger of the postwar decade, which has been marked by a record number of consolidations, has been in the public interest, there is no denying the fact that only the diversification gained through such action enabled hundreds of companies to survive.

Examples of this are numerous in a wide area of the economy, notably automotive supply and railroad equipment. Indeed, there no longer is such a thing as a railway equipment industry, pure and simple, anymore. Today that business is but a part of the whole, which takes in the products of atomic energy, chemicals, power, petroleum, trailer trucks, plastics, electronics, earth-moving equipment and dozens more. The railway equipment business is excellent at the moment, but many of the companies now producing the direly needed freight cars and allied equipment of the carriers would not be in existence if they had not turned to greener fields through merger.

As recently as two years ago the railroads were ordering precious few cars and little other equipment. That this is a feast-or-famine business might be news to certain members of Congress, but to the industry this is an old story. It was a case of diversify or die. Since economic suicide is scarcely a business policy, there was a scramble by the rail-equipment people to lessen dependence on carriers.

In fact, so dismal was the business of supplying railroads that one company, Pressed Steel Car, embarked on a diversification program that never stopped until the company had gotten completely out of the business of building freight cars. Thus, a company that seven years ago made nothing but freight cars now is an important factor in machine tools and turns out a variety of other products. This 19th Century company even changed its name to U. S. Industries, Inc.

The need for merger also is pointed up in the appliance industry, where companies with only one, two or a few items are seriously handicapped in competing against concerns with a well-rounded line.

### Bethlehem and Youngstown

In the absence of legislation, the antitrust division often has fallen back on the device of "notification" that it will instigate proceedings if a corporation goes ahead with a merger. It is this threat that has blocked the decades-old plan of Bethlehem Steel to absorb Youngstown Sheet & Tube.

Bethlehem, the country's No. 2 steel producer, has asked for specifics about the case – when, for example, the company might get a hearing or a trial if it went ahead in concert with Youngstown. The "trust-busters" are saying little, but are readying a case against the companies in the event they ignore the threat.

It is difficult for many people familiar with the steel industry to see how a Bethlehem-Youngstown merger can come under the head of monopoly. Indeed, there has been no complaint within the industry against the plan. Bethlehem has its major facilities in the East and some facilities on the West Coast. Youngstown operates in the Midwest. It would appear to be the most logical kind of merger. However, the companies are loath to proceed in the face of Government hostility.

### Transamerica Stopped

Yet another sign of the "anti-big-business" philosophy in Washington was apparent last month, when President Eisenhower

signed into law the Congressional measure known as the Bank Holding Company Act. There are about 150 bank holding companies in the country which control one or more banks and probably more than 100 of these are exempt by terms of the measure or by specific amendments.

It is generally accepted that the prime objective of the bill's sponsors was to cut down to size the Transamerica Corp., largest bank holding company in the United States. This is the organization built by the late A. P. Giannini.

Transamerica will be hit in the matter of divestment of non-banking subsidiaries – its Occidental Life Insurance provides about 38% of the net profit of the parent company. The new law also will pinch Transamerica in the matter of future expansion, since it puts bank holding companies under the specific supervision of the Federal Reserve Board and gives state banking authorities a veto power over expansion of such companies across state lines.

### The Need for Study

Big business (like big labor) is a natural phenomenon of this fast-growing nation. That there have been abuses, even leaders of big business will concede. But that scarcely gives politicians the license to interfere with the economic process, about which they often know little or nothing. It is, of course, a sure-fire vote-getter– and this is an election year. Large elements of the population are not aware of the true situation.

If business is to be caught between political groups intent on vying for electoral advantage, then a period of confusion and disorder is inevitable. It is not too hard to envisage the kind of shenanigans that threaten from the kind of measure that would give Government bureaucrats the authority to approve or reject a planned merger.

A panel, on the order of the Hoover Commission or any group with a profound understanding of our economic processes, is needed to study the trend toward mergers and bigness in business. It must be far removed from the political hurly-burly. Only thus will Congress and the people know whether the present trends have spawned monopolies and restrained competition, whether the public interest has been served or ignored and what measures (if any) are needed to correct conditions.

The owner or investor in a small business must remember that any crackdown on mergers can work a hardship for him. After all, acquisition of a small firm by a large one is usually of minor importance to the vast enterprise, but the right of the owners of small corporations to sell out to large ones is often of crucial importance to the owners of the small entity. The alternative to selling may very well be deficit operations or even bankruptcy.

From the foregoing, it must be obvious that any public study of the economic processes in this country must be undertaken by experts in the field. —END

## Today's Man-Made Business Cycle

(*Continued from page* 338)

Again, monetary policy is now in the hands of a skilled and practiced Federal Reserve which is broadly committed to the use of its general powers toward the maintenance of a high level of business activity, and, specifically, a high level of residential construction and capital outlays. Underlying this broad monetary policy are precedents for the adoption of selective controls where and when Congress feels necessary. And the general banking system is now fortified by network of deposit guarantees, loan guarantees, and holdings of federal liabilities which carry the nation's credit reputation behind them. The four pillars of monetary management – open market policy, flexibility in the FR discount rate, changes in reserve requirements, and flexible management of the federal debt – are now useful tools in the hands of capable money market managers.

But above all the changes that have altered the business cycle over the past three decades has been the complete acceptance by government of responsibility for maintaining full employment. The so-called Full Employment Act of 1946 places it within the legitimate objective of the Federal government to affect economic conditions (without spelling out the means) whenever it appears that without the benefit of government intervention economic activity will be insufficient to maintain full employment. This mandate has, of course, an overwhelming political connotation; any administration that does not take it seriously is likely to find itself a minority party on very little notice.

### What's Left of the Cycle?

The changes described above have unquestionably altered the nature of the business cycle, as that term used to be understood. And one might go further and say that it has partially eradicated the standard cycle. But what has it left in its place? Is everlasting prosperity and growth, free from even the fear of recession, just around the corner? Or have the cures produced some dangerous effects of their own?

All things considered, the answers to these questions are not reassuring. Increasingly in the past three years, there have been indications that the constant suppression of the old business cycle has been accomplished at the cost of building a dizzy edifice of artificial restraints, artificial stimuli to investment, artificial consumption, even artificial saving. We have cured the erratic cyclical behavior of farm prices, but at the cost of accumulating huge surpluses which overhang our own domestic market and wreak havoc with those of our allies which are large agricultural exporting countries. We have empowered labor to command sufficient purchasing power to clear our markets of goods produced, but only by constantly elevating our costs of production. And rising production costs are constantly threatening to engulf profit margins and drown the incentives to private investment. At the same time, the incessant rise in labor costs is gradually undermining our selling position in world markets.

We have gained more equal income distribution through progressive taxation, but again at the cost of curtailing saving, and magnifying the inflationary pressures on our price level.

### Destroying Incentives

We have, in the course of erecting the bulwark of big government, expanded our national debt, and our money supply, at so rapid a rate that the rise in our price level has devalued past saving,

and destroyed current incentives to save.

What is particularly notable in this process of subduing the business cycle by constantly increasing artificialties is that the technique tends to run away with the technician, and we may already have passed the point where the policy can be changed without producing results very similar to those of the business cycle. Current efforts to restrain the growth of debt are an illustration: in the absence of normal incentives to save, forced saving through the restriction of credit has precipitated something close to a financial crisis in the past eight weeks, and whole batteries of administration spokesmen have lined themselves up with the argument that credit must be allowed to expand further. Similarly, the efforts of steel companies to resist wage demands of the steelworkers union may well result in a debilitating strike, followed by a new and steeper round of wage-price inflation.

### Moral For Investors

In this bear-by-the-tail situation, the moral for investors should be clear. While the influences that precipitated the 1929 recession may have been largely subdued in the past fifteen years, the American economy is not without its problems, and the problems are growing increasingly acute. The "new era" may be here only in the limited sense that the old disorders are no more, but they have apparently been replaced by a set of new disorders which are equally serious.

In particular, it might be noted that a large proportion of the artificialities injected into the American economy since the early 'thirties affect incentives to invest. At the moment, American business is investing at an unprecedented rate, and the makers of investment goods from steel to packaging machinery are enjoying extremely good business and very satisfactory profits. Nevertheless, the constant upward pressure on costs generated by the systematically inflationary bias of the American economy, as it is constructed today, is persistently eroding the incentives for investment, and companies operating in capital goods lines are becoming increasingly sensitive to recession. Similarly, in utilities industries, where administrative rate adjustments always lag behnd rising costs, profits (and security valuation) may also be in for rougher weather. Finally, in the homebuilding and automotive industries, where Federally-stimulated debt expansion has already run a long uphill course, there are strong indications that intense recessionary pressures are now emerging that will be difficult to control. END

## For Profit and Income

(*Continued from page* 363)

cause of (1) comparatively low foreign crude oil producing costs, especially in the Mid-East; and (2) faster rise in foreign consumption, as heretofore cited.

### Gulf

Among the international companies, Gulf Oil, controlled by the Mellon interests, is a good choice to earmark for later buying. It has huge crude reserves, especially in Kuwait, which is one position that the West, under British leadership, would be most determined to hold in any possible showdown. The Gulf management is aggressively expansion-minded, as emphasized by its recent acquisition of Warren Petroleum, an enlargement of its controlling stock interest in British American oil, second largest Canadian oil enterprise, and purchase of a large block ($120 million) of convertible debentures of Union Oil of California, apparently paving the way for later merger of that company. Profit may reach about $10 a share this year, against 1955's $8.19. Currently at 114, against recent high of 129⅛, the stock is priced at about 11.4 times earnings. Yield provided by the $2.50 cash dividend is low; but the 4% stock dividends paid annually in recent years are expected to continue, making over-all return relatively good. The company paid 100% stock dividends, equivalent to a 2-for-1 split, in 1951 and 1936. Another appears likely in no great time.

### Choice

We think it would make sense to watch for buying levels in aluminum stocks and to get out of coppers on rallies. Coppers have thrived on shortage, largely resulting from a series of mine strikes—not basic growth of demand. Per-capita consumption is well under former peak levels. The price structure (artificially inflated) is under pressure. Per capita consumption of aluminum has more than doubled in the short span since 1951; and usage, in pounds, is now well ahead of that of copper and all other non-ferrous metals. At roughly half that of copper per pound, the price is moderate, firm and profitable. Large further long-term growth of the industry is indicated. The stocks have reacted considerably from their highs. They are still liberally, but not too extremely priced on earnings to be reported for 1956; but they are reasonably priced on cash earning power (net before depreciation and accelerated amortization). As these charges eventually recede and sales gain further, reported earnings figure to rise sharply.

### Values

Some conservative income stocks also are gradual-growth stocks reasonably priced on earnings and yielding around or close to 5%. They merit consideration in market decline. Three examples: Beneficial Finance at 21, seven dividend boosts since 1946; National Dairy Products at 38, nine boosts in annual payments since 1946; and Union Tank Car at 32, six dividend boosts since 1946, with one in March of this year, the fourth increase since 1952.

—END

## Transformation in the Ohio Valley

(*Continued from page* 340)

Tennessee and the Kanawha, have been developed with 9-foot channels that make possible economical waterway shipments to the South, Midwest and abroad via the Gulf Coast through the connection with the Mississippi, while traffic moving in the opposite direction has a direct water connection between the coal and other raw materials sources of eastern Kentucky, Virginia and West Virginia, through the Ohio's connection with the Monongahela and Pittsburgh.

Some idea of the teeming activity going on in the Valley is had from the fact that in the postwar years to the end of 1955 approximately $8 billion has been spent in the Valley for new plants

(*Please turn to page* 386)

# OVER 500 POINTS PROFIT ON THE 15 STOCKS IN OUR OPEN POSITION

At this writing, the 15 stocks which the Forecast is carrying show over 500 points appreciation from our original buying prices.

They include a number of issues which have advanced 100%, 200% and more since we recommended them — stocks such as Boeing, General Dynamics, Sperry Rand, International Telephone, Southern Railway. These recommendations clearly demonstrate our ability to select issues that are logical candidates for stock splits, well conceived mergers — where dividends are likely to be increased or augmented by extras in cash or stock.

### Our Subscribers Hold Cash Reserves Ready for New Opportunities

For some time, we have postponed all buying of new security selections, because we believed the market had become too vulnerable for subscribers to expand their positions.

Now the secondary decline in stock prices is bringing some specially favored issues to a new buying level. In our coming Forecast Bulletins we will give the buying signal when promising stocks are truly undervalued in light of 1956-57 prospects. And . . . over the months ahead as further exceptional opportunities emerge at bargain prices — we will round out our investor position in our 3 *supervised* investment programs, including:

- **High-grade securities stressing safety, assured income-sound enhancement**
- **Dynamic Stocks for Substantial Profits with Higher Dividend Potentials**
- **Strong Low-Price Situations for Large-Percentage, Longer-Term Gains**

Each week, too, you will receive our Bulletin, keeping you a step ahead of the public, on the outlook for the securities market — the action of the 46 major stock groups . . . prospects for business — latest Washington news . . . as well as current trend signals given by the Dow Theory — and by our famous Supply-Demand Barometer.

### ENROLL NOW — GET OUR LATEST ADVICES — our counsel on your present holdings.

Send your subscription today, so you will receive our prompt buying advices as special dividend payers with unusual growth potentials reach undervalued levels.

With your order, enclose a list of your present security holdings (12 at a time). Our staff will analyze them promptly and counsel you which to retain — which to sell to release funds to buy our coming recommendations.

*Mail Coupon Today*

**Special Offer**

| | |
|---|---|
| **6** MONTHS' SERVICE | **$75** |
| **12** MONTHS' SERVICE | **$125** |

*Complete service will start at once but date as officially beginning one month from the day your check is received. Subscriptions to The Forecast are deductible for tax purposes.*

SPECIAL OFFER—Includes one month extra FREE SERVICE

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street, 90 Broad Street, New York, N. Y.

I enclose ☐ $75 for 6 months' subscription: ☐ $125 for a year's subscription

*(Service to start at once but date as officially beginning one month from the day you receive my payment.)*

SPECIAL MAIL SERVICE ON BULLETINS

*Air Mail:* ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada.
*Special Delivery:* ☐ $5.20 six months; ☐ $10.40 one year.

☐ Telegraph me collect in anticipation of important market turning points . . . When to buy and when to sell . . . when to expand or contract my position.

Name ....................

Address ....................

City ....................

State ....................

*Your subscription shall not be assigned at any time without your consent.*

*List up to 12 of your securities for our initial analytical and advisory report.*

## Transformation in the Ohio Valley

(*Continued from page* 384)

and expansion. A list of companies that have contributed to this growth would read like "Who's Who in Industrial America". It would include such companies, aside from those already mentioned, as General Electric, Ford Motor, Westinghouse, U. S. Steel, Eastman Kodak, Foote Mineral, Bendix Aviation and Union Carbide & Carbon.

At Ravenswood, W. Va., Kaiser Aluminum & Chemical is putting the finishing touches to an aluminum rolling mill that by July of this year is expected to be producing 72 million pounds of aluminum sheet and foil, and by 1959 this mill plans to be producing at a rate of 250 million pounds annually. New reduction and alumina plants also under construction there are scheduled for completion mid-1957. Kaiser's investment in the Ravenswood mill and reduction plant will total about $220 million. Some sense of the great activity at Ravenswood is conveyed by the recent comments of Philip Sporn, President of American Gas & Electric Co., following his visit there. He said: "Everywhere you drove you saw signs of activity, and of coming activity. The new roads, new shopping centers, new service stations, new restaurants and motels, the new and modern housing developments, new communication facilities—all attest the fact that something new and vigorously alive is going on there." In his opinion, "Ravenswood is the Ohio Valley and the Ohio Valley is Ravenswood."

### Action At Clarington

The Ravenswood scene is likely to be duplicated at Clarington on the Ohio River once Olin Mathieson Chemical Corp. hits its stride in constructing its new $90 million alumina plant, reduction plant and aluminum rolling mill, in connection with which it will invest another $30 million for necessary power facilities. A unique feature of the power plant which is to be engineered and built by American Gas & Electric is that it will be erected on a new major coal mine to be owned and operated by the Pittsburgh Consolidation Coal Co. The power plant will consist of two units designed for development up to 1,350,000 kilowatt capacity, both of which will be operated by AGE's subsidiary, Ohio Power Co., and integrated into the American Gas & Electric System. To service the site at Omal, Ohio near Clarington, the Pennsylvania Railroad is extending its tracks at a cost of several million dollars.

Undoubtedly, there was a combination of attractions that lead both Kaiser Aluminum and Olin Mathieson to pick the Valley for their new aluminum plants. Kaiser, in commenting on its Ravenswood project, emphasized the advantages of the Ohio River which will provide economic water transportation with its alumina plants and its Jamaica bauxite deposits. In picking Ohio Valley sites both companies, like others before them, didn't overlook the strategic location to markets in the Eastern and Midwestern states, and easy access to four major Atlantic ports and ports on two of the Great Lakes. Another feature of the Valley is the favorable tax structure. The rate of tax, of course, varies in the several states, but state and local authorities strive for low taxes to encourage industrial development, and the creation of an environment of economic cooperation.

### All These Advantages and Coal, Too

These are some of the advantages the Valley holds for all types of industry. To paraphase, a fitting comment would be "all these and coal, too." As has already been said, the production of primary aluminum requires vast amounts of electricity. The Valley with its great abundance of resources in coal has an almost unlimited supply of electric energy. Through a combination of enterprise and technical skill by the electric utilities in the Valley there has been brought into existence a system of electric power supply capable of meeting almost any demand for electric energy on a basis of cost to the user almost unmatched in any other part of the United States. One reason for this is that the technology of burning coal for electric power generation has been developed to the highest conceivable point there in the Valley.

The availability of electric power was one of the major factors that decided Oak Ridge, Tenn., as the site for the first atomic plant during World War II. Since then other atomic projects have been built in the Valley, the most recent being the giant atomic plant in southern Ohio. To supply this new plant's power requirements 15 of the Valley's electric companies formed and privately financed the Ohio Valley Electric Corp., and its subsidiary, Indiana-Kentucky Electric Corp., to build at a cost of about $385 million two plants having a generating capacity of 2,365,000 kw. These two plants are the largest generating stations ever built by private enterprise and are supplying the AEC's project its full power requirements of 1,950,000 kw. at a cost lower than estimated back in 1952 when the AEC entered into a 25-year contract with OVEC for power for the new atomic plant. For size and speed of construction, the OVEC project is unprecedented in the history of the private electric utility industry. Within 26 months from the time ground was broken the first generating unit at each plant went into production.

The River and the Valley's coal resources and its supply of relatively low cost electric energy are attractions also for industries other than steel and aluminum production. Into the Valley in recent years have come a variety of other industries lead, in numbers, by chemical companies. In this latter group are Allied Chemical & Dye, the Marbon Chemical Division of Borg-Warner, E. I. du Pont deNemours, Celanese Corp. of America and Columbia-Southern Chemical, these being attracted by the Valley's raw materials, but particularly coal the by-products of which include coke, coke-oven gas, tar, the invaluable light oils, and ammonia.

The Valley's outlook is for continued growth. True, there may be lulls from time to time in keeping with the general trend—up or down—of our overall economy. Unquestionably, further expansion will be stimulated by the development of the St. Lawrence Seaway, and the prospects of growing importance of Great Lakes ports in the next few years as well as the movement for plant dispersion that will bring about new plant construction away from metropolitan target areas.

END

## Keeping abreast of Industrial and Company News

(*Continued from page* 369)

With many of the nation's oil companies entering the uranium field at least two uranium companies are reversing the usual order by spreading their wings in the direction of the oil industry. William R. McCormick, president of Standard Uranium Corp., and Charles A. Steen, president of Utex Exploration Co. have announced that their companies have entered into a joint natural gas and oil venture in Eddy County, New Mexico. The properties purchased in the Standard-Utex venture cover some 2,000 acres and include two producing wells. Mr. McCormick stated that Sinclair Oil & Gas has agreed to buy the total oil production. Mr. McCormick said the two producing wells have a reserve estimated at 400,000 barrels. "Based on production of these two wells alone we expect to pay out our entire cash investment in approximately one year," he said. Preparations are now under way to drill six more wells, to be completed in the next three months. Standard and Utex are negotiating for further gas and oil property acquisitions to be carried out jointly.

**United Engineering & Foundry Co.** backlog has risen again (MAGAZINE, May 12, Page 264). As of April 24, backlog was at $103 million. Consolidated backlog of business carried forward into 1956 was about $76.4 million, against $41.6 million a year earlier. The company is optimistic about 1956 prospects. —END

## Tool Makers Face Divergent Prospects

(*Continued from page* 351)

outstanding shares and per share earnings for both periods are after adjusting to the 2-for-1 stock split in October, 1955. On the basis of latest earnings report and the excellent showings in recent years, current dividend indicated at $1.00 annually is conservative but in view of expansion program in this and foreign countries, the dividend rate may hold at present level and possibly supplemented by an extra or a moderate stock dividend.

*Cincinnati Milling Machine Co.*, showed a somewhat startling increase in sales for the 12 weeks ended last March 24, by comparison with the like period of a year ago. In the latest period sales of $32.4 million increased by $11.7 million from $20.1 million in the 12 weeks to March 19, 1955, a gain of approximately 55.2 per cent. Net income after taxes for the first 12 weeks of this year showed an even greater gain, increasing from $863,874 a year ago to $2,174,221 for the 1956 short period, the increase being approximately 152 per cent. On a per share basis, earnings in the first 12 weeks of this year were $1.24 as compared with 48 cents a year ago. These per share figures are after giving effect to the 2-for-1 split in December 1955. Since the end of 1955 Cincinnati's order backlog has risen from $90 million to $106 million as of March 24, this year, the latter total representing business scheduled for shipment into 1957. The new stock currently on an indicated dividend basis of 40 cents quarterly is selling around 47 to yield 3.4%. At this price the shares are within approximately two points of the 1955-56 high of 49⅛, reflecting the company's immediate earnings prospects and its longer-range potentials because of its broad line of machine tools and its diversification in cutting fluid products, a growing range of precision grinding wheels, and a chemical subsidiary with two divisions manufacturing additives for use in the food, soap, lubricant, plastic, paint, and other industries. —END





## Market Forecasting Business Trends

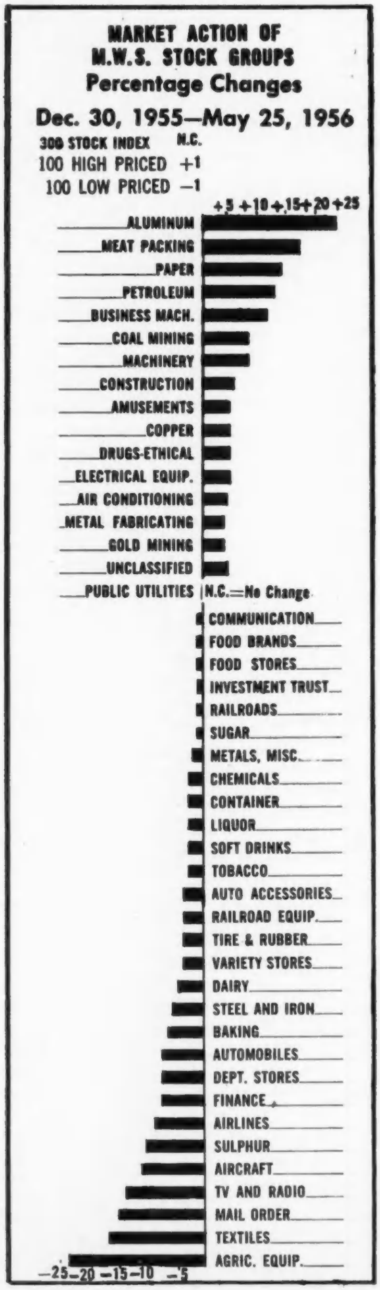
(*Continued from page* 335)

ago levels, despite shrinkage in housing starts. Trade opinion is that home starts probably will rise slightly later on.

The selective rise in industrial prices has continued, but at a slower rate. It will get added impetus from the steel wage-price settlement at least in capital-goods lines; but will impose cost-absorption problems for industries operating in buyers' markets, such as automobiles and appliances. Farm prices have been in a recovery phase since last December.

Regardless of the price trend, the rate of inventory accumulation in the second half figures to be well under that of the first half. That is on the minus side in the business balance sheet. Production in the key automobile industry is running further and further under the fantastic year-ago levels, but is still too high as indicated by huge excess in dealers' inventories. However, the third-quarter sag is bound to be followed by a rebound in the fourth quarter to get dealers stocked with 1957 models. It is still possible that in over-all busi-

ness activity the final quarter can be the best of the year. But that is not saying a great deal, for any gain over the first-half average, or over the 1955 fourth quarter, would figure to be modest at best. That means that, also at best, the general outlook for corporate earnings and dividends is relatively static, especially as compared with sharp gains in 1955. This, plus ample valuations, could put a ceiling on stock prices around or under the spring highs.




On the other hand, the floor depends on continuing avoidance of cyclical business recession. As to that, the fourth-quarter "feel of things" might give some clues.

It will remain a selective market. But, with the underlying trend now in doubt and with stock buyers somewhat less willing to take risks than previously, we may well see strength in fewer stock groups and individual issues than heretofore. As it is now, even on a rally, more stocks are recording new lows daily than are getting to new highs. Our broad weekly index is about where it was at the start of the year. So are utilities, communication, food brands, food stores and a few other groups, mostly of so-called defensive type. Against that, as shown by the chart on the cover, we note net gain of 14% on the year for the favored paper group, against a net decline of 8% for the unliked automobile group. Some contrasts, brought out by the bar graphs on this page, are even wider. At the opposite extremes are aluminum, up 23% on the year despite a sharp markdown from recent highs, and agri-equipment, down 23% on the year and still largely friendless.

Measured by price-earnings ratios, dividend yield and ratio of stock yield to bond yield, the market is much less vulnerable than at the 1929 and 1937 tops; and moderately less vulnerable than at the 1946 peak. But, by the same token, it is more vulnerable than at the 1948 high, which was followed by a 12-month decline of 16.3% by the industrial average; and than at the early-1953 top, which was followed by a 13% retreat in eight and a half months. The 1948 decline started from close to a 6% yield level for "the Dow," which stood at 8.4 times earnings; and the 1953 retreat took off from a 5.4% yield basis, with the price-earnings ratio 10.8 —both as a result of concern over business prospects, as in the present situation. There is one difference not in favor of bulls—at the April high the yield was only 4.1% and the price-earnings ratio was 14.2; and at last week's close these figures were 4.5% and 13.4, respectively, based on dividends for 12 months through March and on 1955 earnings. It is a dubious market. Act accordingly. Look to your defenses, as regards reserves and quality of portfolio holdings.

—Monday, June 4.

## Answers to Inquiries

(*Continued from page* 370)

pany increased the price of most of its shoes October 1, 1955, the first advance since December 1, 1952. Price advances were general throughout the industry. Further increases may be made.

Practically all of the company's sales divisions showed gains in 1955. Outstanding increases were shown in a line of men's and boys' shoes retailing from $6.95 to $8.95.

With principal employe contracts established for at least two years, combined with the generally favorable economic outlook, the company looks for a good year in 1956.

## As I See It!

(*Continued from page* 333)

security has already become a racket. When household and office workers can draw weekly checks for relief while employers and householders are desperately looking for help that pretty much tells the story.

Is it any wonder the countries abroad are not interested in our way of life and don't want it? The only things they like about us is our money—our industrial know-how—our trade—while they keep their press full of anti-American propaganda.

It seems to me that unless we face things squarely and take the proper steps to solve our problems realistically we are headed for even greater disorganization and disintegration. It is particularly important in this dangerous election year that we decide matters intelligently—not politically —if we are to bring sanity back to both domestic and foreign affairs—get down to the kind of work that will prevent the industrial readjustment from growing into anything worse—and carry on a sound policy abroad to prevent Russia from making "hay" while we are indulging ourselves in political pyrotechnics.

Unless we do that I will be sorry for the man elected to shoulder the responsibilities of the Presidency of the United States next fall—for he will be called upon to cope with the most formidable and, in many instances, unmanageable problems.

—END

# "Only the map's the limit when you vacation by car"

## How more families are finding more rewards in pleasure driving

Andrew Sordoni

*WASHINGTON, D. C.* "Of the 80 million Americans who'll take a pleasure trip this year, I'd say no less than 85 percent will go by automobile." So says Andrew Sordoni, president of the world-famed American Automobile Association.

"Actually, the number of Americans who hit the road for pleasure has tripled since 1940, and has increased thirty-fold since the 1920's," Mr. Sordoni says. "This upsurge in touring by automobile is, truly, one of the great social phenomena of our age.

"Extraordinary? Yes. And it all stems from our cherished American standard of living!"

**How has it come about?**

And Mr. Sordoni adds, "Here's the quick picture: More money earned, more goods produced. A shorter work week. Plus what has become an American institution: the annual paid vacation, in which automobile travel figures so hugely.

"Equally important, of course, is today's automobile itself! In convenience, in economy, it's better than ever. No wonder the automobile is bringing America a new concept of living and pleasure!"

As Mr. Sordoni sees it, automobile touring is an ideal family-shared pleasure.

"Vacationing together by automobile means doing things together. It's like a classroom on wheels for youngsters. They absorb knowledge pleasantly and painlessly.

"The travel curriculum is boundless, ranging from geography and history through all kinds of science—botany, zoology, archaeology — to modern industry and the operations of government.

"And how much more is the vacation *mobility*—so markedly unlike years ago when vacationists spent their entire summer more or less immobilized at a single mountain or seaside resort. Today the average family travels about 1200 miles in 14 days away from home, spending two or three days at perhaps five principal centers of interest. All this is possible, of course, because the automobile is one of the most economical ways there is to take a vacation."

**What's ahead?**

"Our studies show that Americans traveled more than 11½ billion miles last year, on pleasure trips alone. This year the figure will encompass perhaps 15 billion miles of vacation travel!

"And the future? Well, today there are more than 50 million passenger cars on the road—about one car for every three persons. And the prediction for 1965 is that there will be at least 70 million cars using our highways."

Looking ahead, the AAA president says: "In keeping with today's trend toward more leisure, and in line with the impending superhighway improvement program, we can see more and more families enjoying the pleasures of leisurely long distance travel by automobile."

**National's role**

We at National Steel take pride in the great contribution of the automobile to the health and prosperity of our people and our nation. Because National Steel, through two of its major divisions — Great Lakes Steel at Detroit, Michigan, and Weirton Steel at Weirton, West Virginia—is a major supplier of the better, stronger steels used by automobile manufacturers.

Through the skilled engineering and manufacturing of the automobile industry, this nation each year enjoys ever safer, stronger, more economical cars. Our constant goal—through research and cooperation with the automobile industry—is to make better and better steel for still greater safety, strength and economy in the cars and trucks of today and tomorrow.

**SEVEN GREAT DIVISIONS WELDED INTO ONE COMPLETE STEEL-MAKING STRUCTURE**

Great Lakes Steel Corporation • Weirton Steel Company • Stran-Steel Corporation • Hanna Iron Ore Company • National Steel Products Company • The Hanna Furnace Corporation • National Mines Corporation

**NATIONAL STEEL CORPORATION**

**GRANT BUILDING PITTSBURGH, PA.**

ving

in the
nobile
f our
e Na-
major
el at
Steel
najor
steels
urers.
ering
nobile
njoys
mical
h re-
auto-
better
fety,
s and

:

ton
on •
teel
pace
tion